

This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. The Class A Shares and Preferred Shares offered hereby have not been and will not be registered under the U.S. Securities Act and accordingly may not be offered or sold in the United States.

PROSPECTUS

Initial Public Offering

January 30, 2007



CANADIAN Financials & Utilities Split Corp.

\$125,000,000 (Maximum)

5,000,000 Preferred Shares and 5,000,000 Class A Shares

\$10.00 per Preferred Share and \$15.00 per Class A Share

This prospectus qualifies the issuance of Preferred Shares and Class A Shares of CANADIAN Financials & Utilities Split Corp. (the "Company"). The Preferred Shares and the Class A Shares are offered separately but will be issued only on the basis that an equal number of each class of shares will be issued and outstanding.

The Preferred Shares have been provisionally rated Pfd-1 by Dominion Bond Rating Service Limited ("DBRS"). See "The Company — Rating of the Preferred Shares".

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 "Portfolio"). The Manager has obtained a Pfd-1 rating on the Preferred Shares based on the securities included in the Portfolio and by introducing a unique leveraging and de-leveraging mechanism. The big six Canadian banks have a history of strong earnings growth, which has resulted in dividend increases and capital appreciation. Utilities and pipelines have business models which have historically generated predictable cash flows and they have tended to perform well in stable and declining interest rate environments. The non-bank financial issuers provide exposure to: (i) large capitalization financial issuers that have a history of strong capital appreciation and consistent increases in dividend rates; and (ii) real estate investment trusts ("REITs"), which have historically provided stable monthly distributions and capital appreciation and which the Manager expects will benefit from continued growth in the real estate sector and consolidation activity. The following are the top six holdings by market capitalization in each category and the weightings of each category. For a full list of Portfolio Securities, see "Investments of the Company — Investment Guidelines".

**Non-Bank Financial Issuers (including REITs)
(35% weight)**

Manulife Financial Corporation
Great-West Lifeco Inc.
Sun Life Financial Inc.
IGM Financial Inc.
CI Financial Income Fund
Riocan REIT

Banks

(42% weight)

Royal Bank of Canada
The Bank of Nova Scotia
The Toronto-Dominion Bank
Bank of Montreal
Canadian Imperial Bank of Commerce
National Bank of Canada

Utilities and Pipeline Issuers

(23% weight)

TransCanada Corporation
Enbridge Inc.
Canadian Utilities Inc.
Transalta Corporation
Fortis Inc.
Atco Ltd.

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: To provide their holders with: (i) 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. Assuming an offering size of \$50 million, the Class A Shares would have a yield of approximately 1.81% per annum as at January 16, 2007 based on the Company pursuing its noted investment objectives, the current Portfolio dividend and distribution levels and other assumptions described in this prospectus under "Description of Share Capital — Certain Provisions of the Class A Shares". This yield has been calculated on the basis that the Manager and the Leverage Agent elect to receive their fees in Units. The payment of the Management Fee and Leverage Agent Fee in Units will result in dilution to the Net Asset Value equivalent to the cash amount of the Management Fee and Leverage Agent Fee paid in Units. If the Management Fee and the Leverage Agent Fee were paid entirely in cash and without giving effect to any net realized capital gains on the Portfolio Securities, the annualized yield on the original subscription price of the Class A Shares would be 0.79% per annum as of January 16, 2007 based on the Company pursuing its noted investment objectives. The level of distributions paid on the Class A Shares will depend primarily on the dividends and distributions received on the Portfolio Securities and therefore it is expected to fluctuate from month to month.

Connor, Clark & Lunn Capital Markets Inc. (the "Manager") will be responsible for (i) rebalancing the Portfolio at least annually (see "Investments of the Company — Rebalancing Criteria") and (ii) purchasing Portfolio Securities upon the occurrence of a Re-Leveraging Event (as defined herein) (see "Investments of the Company — Active Leverage Management"). The Manager is a registered investment counsel/portfolio manager, with over \$1.1 billion in assets under management as at December 31, 2006. The Manager acts as manager or investment manager to ten closed-end funds trading on the Toronto Stock Exchange ("TSX"). The Manager is part of the Connor, Clark &

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Lunn Financial Group (the “CC&L Group”). The CC&L Group, with approximately \$32 billion in assets under management as at June 30, 2006, offers professional management of financial assets for pension plan sponsors, capital accumulation plans, corporations, foundations, mutual funds and individual investors.

The Preferred Shares and the Class A Shares will be redeemed by the Company on January 31, 2012. The redemption price payable by the Company for each Preferred Share outstanding on January 31, 2012 will be equal to the lesser of (i) \$10.00 plus any accrued and unpaid distributions thereon, and (ii) the Net Asset Value of the Company on that date divided by the number of Preferred Shares then outstanding. The redemption price payable by the Company for each Class A Share outstanding on January 31, 2012 will be equal to the amount, if any, by which the NAV per Unit on that date exceeds the sum of \$10.00 and any accrued and unpaid distributions on the Preferred Shares. Holders of Preferred Shares and Class A Shares will also be entitled to surrender their shares for retraction concurrently on an annual basis and on a monthly basis prior to January 31, 2012. See “Description of Share Capital”.

There is currently no market through which the Preferred Shares or Class A Shares may be sold and purchasers may not be able to resell securities purchased under this prospectus. The TSX has conditionally approved the listing of the Preferred Shares and the Class A Shares. The listing is subject to the Company fulfilling all of the requirements of the TSX on or before April 10, 2007, including distributions of the Preferred Shares and Class A Shares to a minimum number of public holders. The Agents may over-allot or effect transactions as described under “Plan of Distribution”.

In the opinion of counsel, if the Preferred Shares or the Class A Shares are listed on a prescribed stock exchange, Preferred Shares and Class A Shares will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans. Trusts governed by registered education savings plans should consult their own advisors as to eligibility. See “Eligibility for Investment”.

See “Risk Factors” for a discussion of certain factors that should be considered by prospective investors in Preferred Shares or Class A Shares. There is no assurance that the Company will be able to achieve its distribution or capital preservation and appreciation objectives.

Prices: \$10.00 per Preferred Share and \$15.00 per Class A Share

	Price to the Public ⁽¹⁾	Agents’ Fee	Net Proceed to the Company ⁽²⁾
Per Preferred Share	\$10.00	\$0.30	\$9.70
Total Minimum Offering ⁽³⁾⁽⁴⁾	\$14,000,000	\$420,000	\$13,580,000
Total Maximum Offering	\$50,000,000	\$1,500,000	\$48,500,000
Per Class A Share	\$15.00	\$0.90	\$14.10
Total Minimum Offering ⁽³⁾⁽⁴⁾	\$21,000,000	\$1,260,000	\$19,740,000
Total Maximum Offering	\$75,000,000	\$4,500,000	\$70,500,000

Notes:

- (1) The offering prices were established by negotiation between the Company and the Agents.
- (2) Before deducting the expenses of issue estimated at \$639,500 (but not to exceed 1.5% of the gross proceeds of the offering) which, together with the Agents’ fees, will be paid out of the proceeds of the offering.
- (3) There will be no closing unless a minimum of 1,400,000 Preferred Shares and 1,400,000 Class A Shares are sold. If the subscriptions for a minimum of 1,400,000 Preferred Shares and 1,400,000 Class A Shares have not been received within 90 days following the date of the issuance of the final receipt of this prospectus, the offering may not continue without the consent of the securities authorities and those who have subscribed on or before such date.
- (4) The Company has granted the Agents an over-allotment option, exercisable for a period of 30 days after the closing of the offering, to purchase up to 750,000 additional Preferred Shares and 750,000 additional Class A Shares on the same terms set forth above. This prospectus qualifies the distribution of the over-allotment option, and the Preferred Shares and the Class A Shares issuable on the exercise thereof. If the over-allotment option is exercised in full, the total price to the public under the maximum offering will be \$57,500,000 in respect of the Preferred Shares and \$86,250,000 in respect of the Class A Shares, the Agents’ fee will be \$1,725,000 in respect of the Preferred Shares and \$5,175,000 in respect of the Class A Shares and the net proceeds to the Company will be \$55,775,000 in respect of the Preferred Shares and \$81,075,000 in respect of the Class A Shares.

This prospectus also qualifies the distribution of a right granted by the Company to each of the Manager and the Leverage Agent which, when exercised, will entitle the Manager and the Leverage Agent to receive payment of their fees in Units. See “Fees and Expenses”.

RBC Dominion Securities Inc., CIBC World Markets Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc., National Bank Financial Inc., TD Securities Inc., Richardson Partners Financial Limited, HSBC Securities (Canada) Inc., Wellington West Capital Inc., Desjardins Securities Inc., Canaccord Capital Corporation and Raymond James Ltd. conditionally offer the Preferred Shares and Class A Shares, subject to prior sale, on a best efforts basis, if, as and when issued by the Company and accepted by the Agents in accordance with the conditions contained in the Agency Agreement, and subject to the approval of certain legal matters by Stikeman Elliott LLP, on behalf of the Company, and Davies Ward Phillips & Vineberg LLP, on behalf of the Agents. See “Plan of Distribution”.

Subscriptions will be received for the Preferred Shares and the Class A Shares offered hereby, subject to rejection or allotment in whole or in part, and the right is reserved to close the subscription books at any time. Closing of the offering is expected to occur on or about February 6, 2007, but no later than February 28, 2007. Registrations and transfers of Preferred Shares and Class A Shares will be effected through the book entry only system administered by CDS Clearing and Depository Services Inc. Beneficial owners of Preferred Shares and Class A Shares will not have the right to receive physical certificates evidencing their ownership.

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PROSPECTUS SUMMARY

The following is a summary of the principal features of this offering and should be read together with more detailed information and financial data and statements contained elsewhere in this prospectus. Certain capitalized terms used, but not defined, in this summary are defined in the “Glossary of Terms”. Unless otherwise indicated, all references to dollar amounts in this prospectus are to Canadian dollars.

The Company

CANADIAN Financials & Utilities Split Corp. (the “Company”) is a mutual fund corporation established 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 Offering

- Offering:** The offering consists of Preferred Shares and Class A Shares of the Company. The Preferred Shares and the Class A Shares are offered separately but will be issued only on the basis that an equal number of shares of each class will be issued and outstanding.
- Amounts:** Minimum: \$14,000,000 (1,400,000 Preferred Shares)
Maximum: \$50,000,000 (5,000,000 Preferred Shares)
Minimum: \$21,000,000 (1,400,000 Class A Shares)
Maximum: \$75,000,000 (5,000,000 Class A Shares)
- Prices:** \$10.00 per Preferred Share
\$15.00 per Class A Share
- Rating:** **The Preferred Shares have been provisionally rated Pfd-1 by Dominion Bond Rating Service Limited.** See “The Company — Rating of the Preferred Shares”.
- Term:** Five Years (January 31, 2012).
- Investment Rationale:** 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 “Portfolio”). The Manager has obtained a Pfd-1 rating on the Preferred Shares based on the securities included in the Portfolio and by introducing a unique leveraging and de-leveraging mechanism. The big six Canadian banks have a history of strong earnings growth, which has resulted in dividend increases and capital appreciation. Utilities and pipelines have business models which have historically generated predictable cash flows and they have tended to perform well in stable and declining interest rate environments. The non-bank financial issuers provide exposure to: (i) large capitalization financial issuers that have a history of strong capital appreciation and consistent increases in dividend or distribution rates; and (ii) real estate investment trusts (“REITs”), which have historically provided stable monthly distributions and capital appreciation and which the Manager expects will benefit from continued growth in the real estate sector and consolidation activity.
- 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: To provide their holders with: (i) 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. Assuming an offering size of \$50 million, the Class A Shares would have a yield of approximately 1.81% per annum as at January 16, 2007 based on the Company pursuing its noted investment objectives, the current Portfolio dividend and distribution levels and other assumptions described in this prospectus under “Description of Share Capital — Certain Provisions of the Class A Shares”. The yield has been calculated on the basis that the Manager and the Leverage Agent elect to receive their fees in Units.

To the extent necessary to achieve the current estimated distribution of 1.81% per annum as at January 16, 2007 on the Class A Shares, the Manager and the Leverage Agent will elect to receive their fees in Units. The level of distributions paid on the Class A Shares will depend on the dividends and distributions received on the Portfolio Securities and therefore is expected to fluctuate from month to month.

Investment Strategy:

The net proceeds of the offering will be invested in the equity securities of the six largest Canadian banks listed below, in the Canadian utilities and pipeline issuers and in the Canadian non-bank financial issuers listed below (the “Portfolio Securities”).

The information in the following table is based on publicly available information, is historical and is not intended to be, and should not be construed as, an indication of the future levels of market value or yield on the Portfolio Securities.

	<u>Symbol</u>	<u>Portfolio Weight</u>	<u>Yield⁽¹⁾</u>
Banks			
Royal Bank of Canada	RY	7.0%	2.95%
The Bank of Nova Scotia	BNS	7.0%	3.26%
The Toronto-Dominion Bank	TD	7.0%	2.77%
Bank of Montreal	BMO	7.0%	3.75%
Canadian Imperial Bank of Commerce	CM	7.0%	2.82%
National Bank of Canada	NA	7.0%	3.36%
Total/Weighted Average		42.0%	3.15%
Utilities and Pipelines			
TransCanada Corporation	TRP	3.3%	3.28%
Enbridge Inc.	ENB	3.3%	3.14%
Canadian Utilities Ltd.	CU	3.3%	2.73%
Transalta Corporation	TA	3.3%	3.76%
Fortis Inc.	FTS	3.3%	2.70%
Atco Ltd.	ACO.X	3.3%	1.79%
Emera Ltd.	EMA	3.3%	3.90%
Total/Weighted Average		22.9%	3.04%
Non-Bank Financials⁽²⁾			
Manulife Financial Corporation	MFC	2.4%	2.03%
Great-West Lifeco Inc.	GWO	2.4%	2.78%
Sun Life Financial Inc.	SLF	2.4%	2.40%
IGM Financial Inc.	IGM	2.4%	3.34%
CI Financial Income Fund	CIX.UN	2.4%	8.15%
Riocan REIT	REI.UN	2.1%	5.09%
H&R REIT	HR.UN	2.1%	5.37%
Calloway REIT	CWTUN	2.1%	5.10%
Boardwalk REIT	BEI.UN	2.1%	3.54%
Canadian REIT	REF.UN	2.1%	4.20%
Dundee REIT	D.UN	2.1%	5.40%
Canadian Apartment Properties REIT	CAR.UN	2.1%	5.66%
Primaris Retail REIT	PMZ.UN	2.1%	6.02%
Cominar REIT	CUF.UN	2.1%	5.12%
Morguard REIT	MRT.UN	2.1%	6.32%
Alexis Nihon REIT ⁽³⁾	AN.UN	2.1%	6.06%
Total/Weighted Average		35.1%	4.74%
Portfolio Total/Weighted Average		100.0%	3.68%

(1) Yield equals most recently announced dividend or other distribution rate annualized, divided by the closing market price of the security on January 16, 2007.

(2) REITs are considered financial issuers and are included in the S&P/TSX Financial Sub-Index.

(3) Cominar REIT has agreed to acquire all the outstanding units of Alexis Nihon REIT for \$18.50 or 0.77 Cominar REIT units per Alexis Nihon unit. The transaction is subject to the approval of 2/3rds of Alexis Nihon unitholders at a special meeting scheduled for February 22, 2007. If the transaction is approved, the Manager intends to replace Alexis Nihon with another Canadian REIT. If, in the opinion of the Manager, no suitable such replacement is available, the weighting of the remaining REITs in the Portfolio will be increased such that the percentage of the Portfolio invested in REITs is approximately 23.1%.

Re-Balancing:

The Portfolio will be 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 actions or events affecting the Portfolio Securities, and (iii) in order to maintain the Interest Coverage Ratio at greater than 1.5. Trades effected to rebalance the Portfolio will be subject to the confirmation of DBRS that they will not result in a reduction in the rating of the Preferred Shares. See “Investments of the Company — Rebalancing Criteria”.

The information in the following tables is based on publicly available information, is historical and is not intended to be, and should not be construed as, an indication of the future levels of market value or yield on the Portfolio Securities.

Trading History of the Securities of the Portfolio Issuers

Name	January 16, ⁽¹⁾ 2007	Closing Prices as at December 31 ⁽¹⁾					
		2006	2005	2004	2003	2002	2001
Banks							
Royal Bank of Canada	\$54.32	\$55.50	\$45.41	\$32.13	\$30.90	\$28.93	\$25.92
The Bank of Nova Scotia	\$51.57	\$52.10	\$46.14	\$40.70	\$32.90	\$26.33	\$24.48
The Toronto-Dominion Bank	\$69.27	\$69.72	\$61.13	\$49.92	\$43.29	\$34.01	\$41.08
Bank of Montreal	\$69.32	\$69.00	\$65.00	\$57.76	\$53.50	\$41.69	\$35.90
Canadian Imperial Bank of Commerce	\$99.19	\$98.30	\$76.41	\$72.23	\$64.00	\$43.52	\$54.85
National Bank of Canada	\$64.23	\$65.84	\$60.32	\$49.56	\$43.14	\$32.30	\$29.70
Utilities and Pipelines Issuers							
TransCanada Corporation	\$39.00	\$40.61	\$36.65	\$29.80	\$27.88	\$22.92	\$19.87
Enbridge Inc.	\$39.14	\$40.27	\$36.34	\$29.85	\$26.85	\$21.31	\$21.70
Canadian Utilities Ltd.	\$42.50	\$47.73	\$43.98	\$30.16	\$28.93	\$25.61	\$24.88
Transalta Corporation	\$26.57	\$26.64	\$25.41	\$18.05	\$18.53	\$17.11	\$21.60
Fortis Inc.	\$28.16	\$29.77	\$24.27	\$17.38	\$14.73	\$13.13	\$11.74
Atco Ltd.	\$45.80	\$50.33	\$40.95	\$29.25	\$24.00	\$21.50	\$23.38
Emera Ltd.	\$22.84	\$22.60	\$21.04	\$19.17	\$17.85	\$16.05	\$16.74
Non-Bank Financials							
Manulife Financial Corporation	\$39.45	\$39.35	\$34.14	\$27.70	\$20.93	\$17.20	\$20.80
Great-West Lifeco Inc.	\$34.49	\$33.80	\$30.70	\$26.70	\$22.75	\$18.63	\$17.15
Sun Life Financial Inc.	\$50.09	\$49.32	\$46.73	\$40.15	\$32.30	\$26.71	\$33.95
IGM Financial Inc.	\$47.63	\$49.10	\$46.12	\$36.64	\$31.05	\$26.75	\$25.50
CI Financial Income Fund ⁽²⁾	\$26.51	\$26.72	\$25.00	\$18.01	\$14.04	\$10.00	\$11.89
Riocan REIT	\$25.95	\$25.15	\$22.79	\$17.75	\$15.30	\$12.47	\$12.13
H&R REIT	\$25.50	\$24.09	\$20.80	\$18.99	\$15.89	\$13.35	\$13.80
Calloway REIT	\$29.40	\$27.60	\$23.74	\$18.75	\$13.75	\$ 9.85	na
Boardwalk REIT	\$41.85	\$41.29	\$21.19	\$18.45	\$17.92	\$15.18	\$11.58
Canadian REIT	\$30.92	\$31.47	\$22.53	\$17.75	\$15.97	\$13.13	\$12.71
Dundee REIT	\$40.65	\$38.65	\$25.70	\$25.60	\$23.40	\$15.45	\$13.50
Canadian Apartment Properties REIT	\$19.09	\$18.58	\$16.15	\$15.08	\$15.36	\$12.95	\$14.20
Primaris Retail REIT	\$19.60	\$18.88	\$16.34	\$13.38	\$11.67	na	na
Cominar REIT	\$23.91	\$22.50	\$19.27	\$17.26	\$14.79	\$12.07	\$12.00
Morguard REIT	\$14.25	\$13.74	\$11.00	\$10.30	\$ 9.30	\$ 8.50	\$ 8.20
Alexis Nihon REIT	\$18.15	\$17.06	\$13.30	\$12.55	\$13.49	\$ 9.95	na

(1) As of the close of the regular trading session on the TSX.

(2) Includes closing price of common shares of corporate predecessor prior to income trust conversion on June 30, 2006.

Source: Bloomberg

Dividend and Distribution History of the Securities of the Portfolio Issuers

	Dividends (Distributions) for the 12 months ended December 31 ⁽¹⁾					
	2006	2005	2004	2003	2002	2001
Banks						
Royal Bank of Canada	\$1.52	\$1.18	\$1.01	\$0.86	\$0.76	\$0.69
The Bank of Nova Scotia	\$1.56	\$1.36	\$1.42	\$0.84	\$0.56	\$0.65
The Toronto-Dominion Bank	\$1.84	\$1.64	\$1.40	\$1.20	\$1.12	\$1.12
Bank of Montreal	\$2.42	\$1.85	\$1.59	\$1.34	\$1.20	\$1.12
Canadian Imperial Bank of Commerce	\$2.78	\$2.69	\$2.35	\$1.73	\$1.64	\$1.48
National Bank of Canada	\$2.02	\$1.78	\$1.51	\$1.15	\$0.98	\$0.84
Utilities and Pipelines						
TransCanada Corporation	\$1.28	\$1.22	\$1.16	\$1.08	\$1.00	\$0.90
Enbridge Inc.	\$1.15	\$1.04	\$0.92	\$0.83	\$0.76	\$0.70
Canadian Utilities Ltd.	\$1.15	\$1.21	\$1.18	\$1.15	\$1.11	\$1.09
Transalta Corporation	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Fortis Inc.	\$0.67	\$0.59	\$0.54	\$0.52	\$0.49	\$0.47
Atco Ltd.	\$0.82	\$0.76	\$0.70	\$0.64	\$0.58	\$0.52
Emera Ltd.	\$0.89	\$0.89	\$0.88	\$0.86	\$0.86	\$0.85
Non-Bank Financials						
Manulife Financial Corporation	\$0.73	\$0.58	\$0.47	\$0.39	\$0.30	\$0.24
Great-West Lifeco Inc.	\$0.93	\$0.81	\$0.69	\$0.56	\$0.47	\$0.39
Sun Life Financial Inc.	\$1.15	\$0.99	\$0.86	\$0.68	\$0.56	\$0.48
IGM Financial Inc.	\$1.54	\$1.34	\$1.15	\$0.99	\$0.86	\$0.73
CI Financial Income Fund ⁽²⁾	\$1.49	\$0.66	\$0.60	\$0.36	\$0.24	\$0.04
Riocan REIT	\$1.30	\$1.27	\$1.23	\$1.14	\$1.11	\$1.08
H&R REIT	\$1.33	\$1.30	\$1.24	\$1.22	\$1.20	\$1.16
Calloway REIT	\$1.47	\$1.37	\$1.22	\$1.15	\$0.19	na
Boardwalk REIT	\$1.30	\$1.26	\$0.90	\$0.19	\$0.05	\$0.05
Canadian REIT	\$1.29	\$1.27	\$1.25	\$1.23	\$1.20	\$1.17
Dundee REIT	\$2.20	\$2.20	\$2.20	\$1.10	\$0.00	\$0.00
Canadian Apartment Properties REIT	\$1.08	\$1.08	\$1.08	\$1.07	\$1.06	\$1.05
Primaris Retail REIT	\$1.14	\$1.11	\$1.05	\$0.47	na	na
Cominar REIT	\$1.22	\$1.21	\$1.18	\$1.15	\$1.11	\$1.09
Morguard REIT	\$0.90	\$0.90	\$0.90	\$0.90	\$0.90	\$0.90
Alexis Nihon REIT	\$1.10	\$1.10	\$1.10	\$1.10	\$0.04	na

(1) Dividends (distributions) have been adjusted for stock (unit) splits.

(2) Dividend (distribution) history includes dividends paid by corporate predecessor before income trust conversion on June 30, 2006.

Source: Bloomberg

Market Capitalization, Yield, Historical Total Returns and Dividend (Distribution) Growth

Name	Market Capitalization (millions) ⁽¹⁾	Yield ⁽²⁾	5-Year Total Return ⁽³⁾	10-Year Total Return ⁽³⁾	5 Year Dividend Growth ⁽⁴⁾
Banks					
Royal Bank of Canada	\$69,578	2.95%	20.38%	19.12%	17.11%
The Bank of Nova Scotia	\$51,003	3.26%	20.58%	19.55%	19.14%
The Toronto-Dominion Bank	\$49,694	2.77%	13.92%	17.48%	10.44%
Bank of Montreal	\$34,710	3.75%	18.17%	15.49%	16.66%
Canadian Imperial Bank of Commerce	\$33,326	2.82%	16.29%	16.60%	13.44%
National Bank of Canada	\$10,374	3.36%	21.24%	20.36%	19.18%
Weighted Average	\$41,447	3.15%	18.43%	18.10%	15.99%
Utilities and Pipelines					
TransCanada Corporation	\$19,046	3.28%	19.59%	11.99%	7.30%
Enbridge Inc.	\$13,748	3.14%	16.89%	18.72%	10.44%
Canadian Utilities Ltd.	\$ 5,325	2.73%	14.94%	14.67%	1.15%
Transalta Corporation	\$ 5,351	3.76%	9.85%	10.13%	0.00%
Fortis Inc.	\$ 2,920	2.70%	24.59%	17.53%	7.46%
Atco Ltd.	\$ 2,688	1.79%	17.68%	17.08%	9.54%
Emera Ltd.	\$ 2,531	3.90%	11.38%	10.32%	0.92%
Weighted Average	\$ 7,373	3.04%	16.42%	14.35%	5.26%
Non-Bank Financials					
Manulife Financial Corporation	\$60,990	2.03%	15.96%	24.48%	24.75%
Great-West Lifeco Inc.	\$30,734	2.78%	18.34%	23.79%	18.92%
Sun Life Financial Inc.	\$28,704	2.40%	11.18%	22.87%	19.09%
IGM Financial Inc.	\$12,612	3.34%	16.67%	17.13%	16.03%
CI Financial Income Fund ⁽⁵⁾	\$ 7,530	8.15%	21.63%	31.39%	110.13%
Riocan REIT	\$ 5,157	5.09%	24.89%	21.98%	3.83%
H&R REIT	\$ 2,825	5.37%	21.86%	19.15%	2.77%
Calloway REIT	\$ 2,385	5.10%	39.88%	na	8.42%
Boardwalk REIT	\$ 2,167	3.54%	33.68%	21.15%	91.76%
Canadian REIT	\$ 1,782	4.20%	27.91%	18.03%	2.00%
Dundee REIT	\$ 1,537	5.40%	29.52%	8.47%	0.00%
Canadian Apartment Properties REIT	\$ 1,143	5.66%	14.18%	16.30%	0.57%
Primaris Retail REIT	\$ 1,008	6.02%	29.93%	na	4.23%
Cominar REIT	\$ 866	5.12%	23.96%	21.10%	2.35%
Morguard REIT	\$ 741	6.32%	20.71%	11.15%	0.00%
Alexis Nihon REIT	\$ 470	6.06%	26.38%	na	0.00%
Weighted Average	\$10,813	4.74%	23.25%	19.99%	19.85%
Portfolio Weighted Average	\$22,892	3.68%	19.66%	17.76%	14.89%

(1) Market Capitalization is based on the closing market price on January 16, 2007 multiplied by the number of shares (units) outstanding as of the date of the latest published financial statements.

(2) Yield equals most recently announced dividend or other distribution rate annualized, divided by the closing market price of the security on January 16, 2007.

(3) Total return is compounded annual growth rate (“CAGR”) assuming reinvestment of dividends or distributions and is for the period ending on January 16, 2007, except for issuers with less than 5 or 10-year public history, in which case total return CAGRs are from the period from inception to January 16, 2007.

(4) Compounded annual growth rate is based on the period from January 16, 2002 or since inception to January 16, 2007.

(5) Dividend (distribution) growth includes dividends paid by corporate predecessor before conversion into an income trust.

Sources: Bloomberg and Company Filings

Distributions: It is expected that distributions over the life of the Company will be derived primarily from dividends and distributions received on the Portfolio Securities, and, to a lesser extent from net realized capital gains from the Portfolio Securities. Such distributions may consist of ordinary dividends, capital gains dividends or returns of capital.

Use of Proceeds: The net proceeds from the issue of Preferred Shares and Class A Shares of the Company offered hereby after payment of the Agents' fee and the offering expenses will be used by the Company to acquire the securities that will comprise the Portfolio.

Manager: The Manager is a registered investment counsel/portfolio manager, and has over \$1.1 billion in assets under management as at December 31, 2006. The Manager is part of the Connor, Clark & Lunn Financial Group (the "CC&L Group"), which also includes Connor, Clark & Lunn Investment Management Ltd., Connor, Clark & Lunn Private Capital Ltd., Baker Gilmore & Associates Inc., PCJ Investment Counsel Ltd., Scheer Rowlett & Associates Investment Management Ltd., New Star Canada Inc., Connor, Clark & Lunn Arrowstreet Capital Ltd., Global Alpha Capital Management Ltd. and Banyan Capital Partners Management Partnership. The CC&L Group, with approximately \$32 billion in assets under management as at June 30, 2006, offers professional management of financial assets for pension plan sponsors, capital accumulation plans, corporations, foundations, mutual funds and individual investors.

The Manager acts as manager or investment advisor for the following investment funds: Connor, Clark & Lunn ROC Pref Corp., Connor, Clark & Lunn Conservative Income Fund II, Clark & Lunn Real Return Income Fund, ROC Pref III Corp., Connor, Clark & Lunn Conservative Income Fund, ROC Pref II Corp., ROC Pref Corp., SNP Health Split Corp., Connor, Clark & Lunn PRINTS Trust and Connor Clark & Lunn Global Financials Fund.

Active Leverage Management: **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. See "Investment of the Company — Active Leverage Management".

De-Leveraging: If the value of the Portfolio declines by 34% or more relative to the value of the initial Portfolio, 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 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.

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 equivalents and the Manager will purchase Portfolio Securities. Thereafter, a de-leveraging event shall occur if the LTV Ratio surpasses 65%.

A de-leveraging event will also occur in the event that the Interest Coverage Ratio is less than 1.5 for any calendar quarter. The estimated Interest Coverage Ratio at inception is approximately 1.64.

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 by 34% 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 by more than 34%, and (iv) the ability to re-establish leverage after a de-leveraging event as the Portfolio’s value increases.

RBC Dominion Securities Inc. will act as the Leverage Agent for the Company pursuant to a leverage management agreement (the “Leverage Management Agreement”) to be dated on or prior to the Closing Date.

Eligibility for Investment:

In the opinion of counsel, provided the Preferred Shares or the Class A Shares are listed on a prescribed stock exchange, such Shares will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds or deferred profit sharing plans. Trusts governed by registered education savings plans should consult their own advisors as to eligibility.

Preferred Shares

Rating:

The Preferred Shares have been provisionally rated Pfd-1 by DBRS.

Distributions:

Holders of record of Preferred Shares on the last business day of December, March, June and September will be 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 will be 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. See “Description of Share Capital—Certain Provisions of the Preferred Shares”. The initial distribution on the Preferred Shares payable to Preferred Shareholders of

record on March 30, 2007 is expected to be \$0.07 per Preferred Share, based on the period from the Closing Date to March 30, 2007. The Company will establish and maintain 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 distributions on the Preferred Shares.

Redemption:

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.

Retraction Privileges:

Monthly Retraction: Preferred Shares may be surrendered at any time for retraction by the Company but will be retracted only on a monthly Retraction Date. Preferred Shares surrendered for retraction by a holder of Preferred Shares at least 10 business days prior to a Retraction Date will be retracted on such Retraction Date and such Shareholder will be paid on or before the 15th day of the following month. Shareholders whose Preferred Shares are retracted on a Retraction Date 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. The cost of the purchase of a Class A Share will include the purchase price of the Class A Share, commission and such other costs, if any, related to the liquidation of any portion of the Portfolio required to fund the purchase of the Class A Share and the redemption of the Preferred Share. See "Description of Share Capital—Certain Provisions of the Preferred Shares—Retraction Privileges". On any monthly retraction of Preferred Shares the Company will purchase for cancellation an equal number of Class A Shares in the market so that there will be an equal number of Preferred Shares and Class A Shares outstanding at all times.

Annual Concurrent Retraction: 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.

Priority:

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 with respect to the

payment of distributions and the repayment of capital in the dissolution, liquidation or winding up of the Company. 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.

Class A Shares

Distributions:

The Company intends to pay monthly non-cumulative distributions to the holders of Class A Shares in an amount reflecting the distributions, dividends and net realized capital gains received by the Company from the Portfolio Securities less any distributions payable on the Preferred Shares, operating expenses and any other obligations of the Company. Assuming an offering size of \$50 million, the Class A Shares would have a yield of approximately 1.81% per annum as at January 16, 2007 based on the Company pursuing its noted investment objectives, the current Portfolio dividend and distribution levels and other assumptions described in this prospectus under “Description of Share Capital — Certain Provisions of the Class A Shares”. This yield is calculated on the basis that the Manager and Leverage Agent will elect to receive their respective fees in Units. To the extent necessary to achieve the current estimated distribution of 1.81% per annum on the Class A Shares, the Manager and the Leverage Agent elect to receive such fees in Units. If the Management Fee and the Leverage Agent Fee were paid entirely in cash and without giving effect to any net realized capital gains on the Portfolio Securities, the annualized yield on the original subscription price of the Class A Shares would be 0.79% per annum as of January 16, 2007 based on the Company pursuing its noted investment objectives. The payment of the Management Fee and Leverage Agent Fee in Units will result in dilution to the Net Asset Value equivalent to the cash amount of the Management Fee and Leverage Agent Fee paid in Units. Distributions on the Class A Shares are expected to be primarily returns of capital. The level of distributions paid on the Class A Shares will depend on the dividends and distributions received from the Portfolio Securities and therefore is expected to fluctuate from month to month.

Such distributions will be paid on or before the 15th day of the month following the month in respect of which the distribution is made. Such distributions are expected to be primarily returns of capital and may also consist of ordinary dividends and capital gains dividends. See “Description of Share Capital — Certain Provisions of the Class A Shares”. The initial distribution payable to Class A Shareholders of record on February 28, 2007 is expected to be \$0.02 per Class A Share. There can be no assurance that the Company will be able to pay distributions to the holders of Class A Shares at the expected rate or at all.

No distributions will be paid on the Class A Shares if (i) the distributions payable on the Preferred Shares are in arrears, or (ii) there is no net cash flow remaining after the payment of Preferred Share distributions, operating expenses and any other obligations of the Company. In addition, it is intended that the Company will not pay special distributions unless the Company would need to make such distributions so as to fully recover refundable taxes.

Redemption:

The Class A Shares will be redeemed by the Company on January 31, 2012. 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 minus the sum of \$10.00 and 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.

Retraction Privileges:

Monthly Retraction: Class A Shares may be surrendered by holders thereof at any time for retraction by the Company but will be retracted only on a monthly Retraction Date. Class A Shares surrendered for retraction by a holder of Class A Shares at least 10 business days prior to a Retraction Date will be retracted on such Retraction Date and such Shareholder will be paid on or before the 15th day of the following month. Shareholders whose Class A Shares are retracted on a Retraction Date will be entitled to receive a retraction price per Class A Share equal to 96% of the difference between (i) NAV per Unit determined as of the relevant Retraction Date, and (ii) the cost to the Company of the purchase of a Preferred Share for cancellation. 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 Company's Portfolio required to fund such purchase and the redemption of the Class A Share. If the NAV per Unit is less than \$10.00, the retraction price of a Class A Share will be nil. See "Description of Share Capital — Certain Provisions of the Class A Shares — Retraction Privileges". On any monthly retraction of Class A Shares the Company will purchase for cancellation an equal number of Preferred Shares in the market so that there will be an equal number of Preferred Shares and Class A Shares outstanding at all times.

Annual Concurrent Retraction: 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 share 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 Securities required to fund such retraction. 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.

Risk Factors:

An investment in Preferred Shares or Class A Shares is subject to certain risk factors, including:

- (i) the financial performance of the Portfolio;
- (ii) concentration risk;
- (iii) there is no assurance that the Company will be able to meet its distribution objectives or will return an amount equal to the original issue price of the Preferred Shares or an amount at least equal to the original issue price of the Class A Shares;

- (iv) the market price of the Preferred Shares and Class A Shares will be sensitive to interest rate fluctuations;
- (v) the Class A Shares represent a leveraged investment and therefore the potential returns on such Shares is amplified both to the benefit and detriment of the Class A Shareholders;
- (vi) there can be no assurance that the Preferred Shares will maintain their rating by DBRS. Any lowering or withdrawal of the rating may have a negative effect on the market value of the Preferred Shares;
- (vii) the market price of certain of the Portfolio Securities may be affected by the liquidation of Portfolio Securities as a result of a de-leveraging event;
- (viii) the Company's lack of operating history and the current absence of a public trading market for the Preferred Shares and the Class A Shares;
- (ix) if sufficient deductions are not available, the Company may be liable to pay income tax;
- (x) if a significant number of Shares are redeemed, the trading liquidity of the Shares could be significantly reduced;
- (xi) risks associated with the use of derivative instruments; and
- (xii) counter party risks associated with securities lending.

See "Risk Factors".

Canadian Federal Income Tax Considerations

Taxation of the Company:

At the date of the closing of the offering, provided that the Preferred Shares or the Class A Shares are listed on a prescribed stock exchange in Canada, the Company will qualify, and intends to continue to qualify, as a mutual fund corporation under the Tax Act. As a mutual fund corporation, the Company will be entitled to capital gains refunds in respect of: (i) capital gains dividends paid by it; and (ii) qualifying redemptions (to the extent that the Company has paid or is liable to pay Canadian federal income tax on its taxable capital gains). As a result thereof and of the deduction of expenses and taxable dividends on shares of taxable Canadian corporations, the Company should not be subject to any significant net Canadian income tax liability.

Taxation of Shareholders Resident in Canada:

Dividends: Dividends other than capital gains dividends ("Ordinary Dividends") received by Shareholders that are individuals on the Preferred Shares and the Class A Shares will be subject to the normal gross-up and dividend tax credit rules for dividends received from taxable Canadian corporations. A Notice of Ways and Means Motion tabled in the House of Commons on October 16, 2006 would enhance the gross-up and dividend tax credit for "eligible dividends" (as defined therein) received after 2005 from taxable Canadian corporations. Ordinary Dividends received by corporations (other than specified financial institutions) on the Preferred Shares or the Class A Shares will generally be deductible in computing taxable income.

Ordinary Dividends received by corporations (other than private corporations and certain other corporations) on the Preferred Shares (but not the Class A Shares) will be subject to a 10% tax under Part IV.1 of the Tax Act to the extent that such dividends are deductible in computing taxable income.

Ordinary Dividends received by private corporations (and certain other corporations) on the Preferred Shares and Class A Shares will be subject to a refundable tax under Part IV of the Tax Act.

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 as a return of capital on a Preferred Share or a Class A Share will not be required to be included in income. Instead, such amount will reduce the adjusted cost base of such Share to such Shareholder, assuming such Share is held as capital property by such Shareholder. To the extent that such adjusted cost base to such Shareholder would otherwise be a negative amount, the Shareholder will be deemed to have realized a capital gain at that time and the adjusted cost base will be increased by the amount of such deemed capital gain.

Dispositions: A disposition, whether by way of redemption, retraction or otherwise, of a Preferred Share or a Class A Share held as capital property will result in a capital gain or capital loss to the holder thereof. For a detailed explanation of certain Canadian federal income tax considerations, see “Canadian Federal Income Tax Considerations”.

SUMMARY OF FEES AND EXPENSES PAYABLE BY THE COMPANY

The following table contains a summary of the fees and expenses payable by the Company. For further particulars see “Fees and Expenses”.

<u>Type of Charge</u>	<u>Description</u>
Fees payable to the Agents for selling Preferred Shares and Class A Shares	<p>\$0.30 per Preferred Share. This fee represents 3% of the price of a Preferred Share.</p> <p>\$0.90 per Class A Share. This fee represents 6% of the price of a Class A Share.</p>
Expenses of issue	<p>The Company will pay the expenses incurred in connection with the offering of Preferred Shares and Class A Shares by the Company, estimated to be \$639,500, but not to exceed 1.5% of the gross proceeds of the offering.</p>
Fees payable to the Manager	<p>The Manager will receive a Management Fee equal to 0.50% per annum of the Company’s NAV calculated and payable monthly in arrears, plus applicable taxes. Following the closing, the Management Fee may be paid in cash or Units, at the option of the Manager. This prospectus also qualifies the distribution to the Manager at closing of a right entitling it to receive, upon exercise on or before the last business day of each month, for so long as the Manager acts as manager of the Company, payment of the Management Fee for such month in Units. 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 Manager as payment of the Management Fee will 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.</p>
Fees payable to the Leverage Agent	<p>The Leverage Agent will receive 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. This prospectus also qualifies the distribution to the Leverage Agent at closing of a right entitling it to receive, upon exercise on or before the last business day of each month, for so long as the Leverage Agent acts as Leverage Agent of the Company, payment of the Leverage Agent Fee for such month in Units. The distribution of Units to the Leverage Agent as payment of the Leverage Agent Fee will 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.</p>
Service Fee	<p>A Service Fee will be paid to each dealer whose clients hold Class A Shares. The Service Fee will be calculated and paid at the end of each calendar quarter and will be equal to 0.40% annually of the value of the Class A Shares held by clients of such dealers, plus any applicable taxes. For these purposes, the value of a Class A Share will be the NAV per Unit less \$10.00 and any accrued and unpaid distributions on a Preferred Share.</p>
Ongoing Expenses	<p>The Company will pay all ordinary expenses incurred in connection with its operation and administration, estimated to be \$214,000 per annum. The Company will also be responsible for commissions and other costs of portfolio transactions and any extraordinary expenses which it may incur from time to time.</p>

GLOSSARY OF TERMS

In this prospectus, the following terms shall have the meanings set forth below, unless otherwise indicated:

“**Agency Agreement**” means the agency agreement dated January 30, 2007 among the Company, the Manager, and the Agents.

“**Agents**” means RBC Dominion Securities Inc., CIBC World Markets Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc., National Bank Financial Inc., TD Securities Inc., Richardson Partners Financial Limited, HSBC Securities (Canada) Inc., Wellington West Capital Inc., Desjardins Securities Inc., Canaccord Capital Corporation and Raymond James Ltd.

“**Annual Retraction Date**” means the second last business day of January commencing in 2008.

“**business day**” means any day on which the TSX is open for business.

“**cash and cash equivalents**” means (a) cash on deposit with the Custodian; (b) an evidence of indebtedness that has a remaining term to maturity of 365 days or less and that is issued, or fully and unconditionally guaranteed as to principal and interest, by: (i) any of the federal or provincial governments of Canada; or (ii) the Government of the United States; or (iii) a Canadian financial institution; provided that, in the case of (iii), such evidence of indebtedness has a rating of at least R-1 (mid) by DBRS or the equivalent rating from another approved rating organization; or (c) other cash cover as defined in NI 81-102.

“**CDS**” means CDS Clearing and Depository Services Inc.

“**CDS Participant**” means a participant in CDS.

“**Class A Record Date**” means the last business day of each month.

“**Class A Shareholder**” means a holder of a Class A Share.

“**Class A Shares**” means the Class A shares of the Company.

“**Class J Shares**” means the Class J shares of the Company.

“**closing**” means the closing of the offering on the Closing Date.

“**Closing Date**” means the date of closing, which is expected to be on or about February 6, 2007 or such later date as the Company and the Agents may agree, but in any event not later than February 28, 2007.

“**Company**” means CANADIAN Financials & Utilities Split Corp.

“**CRA**” means the Canada Revenue Agency or any successor organization.

“**Custodian**” means RBC Dexia Investor Services Trust, in its capacity as custodian under the Custodian Agreement.

“**Custodian Agreement**” means the custodian agreement to be dated the Closing Date between the Company and the Custodian.

“**DBRS**” means Dominion Bond Rating Service Limited.

“**Escrow Agent**” means Computershare Trust Company of Canada, in its capacity as escrow agent under the Escrow Agreement.

“**Escrow Agreement**” means the escrow agreement to be dated the Closing Date among CANADIAN Financials & Utilities Split Trust, the Escrow Agent and the Company.

“**Extraordinary Resolution**” means a resolution passed by the affirmative vote of at least 66 $\frac{2}{3}$ % of the votes cast, either in person or by proxy, at a meeting of Shareholders called for the purpose of approving such resolution.

“**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.

“**Leverage Agent**” means RBC DS in its capacity as Leverage Agent under the Leverage Management Agreement.

“**Leverage Agent Fee**” means the leverage agent fee payable to the Leverage Agent as more fully described under “Fees and Expenses — Leverage Agent Fee”.

“**Leverage Management Agreement**” means the Leverage Management Agreement to be dated the Closing Date among the Company, the Manager and the Leverage Agent.

“**LTV Ratio**” means 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.

“**Management Fee**” means the management fee payable to the Manager as more fully described under “Fees and Expenses — Management Fee”.

“**Manager**” means Connor, Clark & Lunn Capital Markets Inc.

“**Maturity Date**” means January 31, 2012.

“**NAV per Class A Share**” means the NAV per Unit less the NAV per Preferred Share. For the avoidance of doubt, if the NAV per Unit is less than \$10.00 plus any accrued or unpaid distributions on a Preferred Share, the Class A Shares will have a NAV of zero.

“**NAV per Preferred Share**” means the lesser of the NAV per Unit and \$10.00.

“**NAV per Unit**” means the NAV of the Company divided by the number of Units then outstanding.

“**NAV Valuation Date**” means, at a minimum, Friday of each week, or if any Friday is not a business day, the immediately preceding business day, and includes any other date on which the Manager elects, in its discretion, to calculate the NAV per Unit.

“**Net Asset Value**” or “**NAV**” means the net asset value of the Company. The Net Asset Value of the Company on a particular date will be 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). See “Net Asset Value and NAV per Unit”.

“**Net Cash Flow for Distributions**” at any time means the amount by which the distributions and dividends received by the Company during the preceding calendar quarter from both the Portfolio Securities and from the cash and cash equivalents held by the Company during the quarter exceeds the operating expenses and other obligations that are not subordinated to the payment of dividends on the Preferred Shares for such calendar quarter of the Company but, for certainty, does not include distributions on the Preferred Shares for such quarter.

“**NI 81-102**” means National Instrument 81-102 of the Canadian Securities Administrators (or any successor policy, rule or national instrument), as it may be amended from time to time.

“**NI 81-106**” means National Instrument 81-106 of the Canadian Securities Administrators (or any successor policy, rule or national instrument), as it may be amended from time to time.

“**NI 81-107**” means National Instrument 81-107 of the Canadian Securities Administrators (or any successor policy, rule or national instrument), as it may be amended from time to time.

“**Ordinary Resolution**” means a resolution passed by the affirmative vote of a majority of the votes cast, either in person or by proxy, at a meeting of Shareholders called for the purpose of approving such resolution.

“**Over-Allotment Option**” means the option granted by the Company to the Agents, exercisable for a period of 30 days after the closing of the offering, to purchase up to 750,000 additional Preferred Shares and 750,000 additional Class A Shares, solely to cover over-allotments, if any.

“**Portfolio**” means the portfolio of common shares of the six largest Canadian banks, the Canadian utilities and pipeline issuers included in the S&P/TSX Composite Index, and the Canadian non-bank financial issuers that the Company will hold from time to time. See “Investments of the Company — Investment Guidelines”.

“**Preferred Share Record Date**” means the last business day of December, March, June and September.

“**Preferred Shareholder**” means a holder of a Preferred Share.

“**Preferred Shares**” means the preferred shares of the Company.

“**RBC DS**” means RBC Dominion Securities Inc.

“**REITs**” means real estate investment trusts.

“**Retraction Date**” means the second last business day of a month.

“**Retraction Notice**” means a notice delivered by a CDS Participant to CDS (at its office in Toronto) on behalf of a Shareholder who desires to exercise his or her retraction privileges.

“**Retraction Payment Date**” means the date that is on or before the 15th day in the month following a Retraction Date.

“**Service Fee**” means the fee payable to each dealer whose clients hold Class A Shares. The Service Fee will be calculated and paid at the end of each calendar quarter and will be equal to 0.40% annually of the value of the Class A Shares held by clients of the dealers, plus any applicable taxes.

“**Share**” means a Preferred Share or a Class A Share.

“**Shareholder**” means a holder of a Preferred Share or a Class A Share.

“**Tax Act**” means the *Income Tax Act* (Canada), as amended.

“**TSX**” means the Toronto Stock Exchange.

“**Unit**” means one Preferred Share and one Class A Share. The number of Units outstanding at any time will be equal to the sum of the number of Preferred Shares and Class A Shares then outstanding divided by two.

“**volatility**” means, in respect of the price of a security, a numerical measure of the tendency of the price to vary over time.

“**Working Capital Credit Facility**” means the credit facility that the Company intends to establish following closing for working capital purposes.

THE COMPANY

CANADIAN Financials & Utilities Split Corp. 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.

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 expects to obtain 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.

Rating of the Preferred Shares

The Preferred Shares have been provisionally rated Pfd-1 by DBRS. Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. DBRS’s rating of the Preferred Shares is on a preferred security rating scale that ranges from Pfd-1 to Pfd-5, which represents the range from highest to lowest quality of rated securities. The assignment of a “(high)” or “(low)” modifier within each of the five preferred security rating categories indicates relative standing within such category. Securities rated in the Pfd-1 rating category by DBRS are in the highest category of the relevant scale and are considered by DBRS to be of superior credit quality. The credit rating accorded to the Preferred Shares by DBRS is not a recommendation to purchase, hold or sell Preferred Shares as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by DBRS in the future if in its judgment circumstances so warrant.

The rating assigned by DBRS represents an evaluation of the Preferred Shares based solely on credit related factors. It does not reflect the risk that market related factors, such as fluctuations in the value of underlying securities, may affect the valuation of the Preferred Shares. See “Risk Factors — Changes in Credit Rating”.

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 based on the securities included in the Portfolio and by introducing a unique leveraging and de-leveraging mechanism. The big six Canadian banks have a history of strong earnings growth, which has resulted in dividend increases and capital appreciation. Utilities and pipelines have business models which have historically generated predictable cash flows and they have tended to perform well in stable and declining interest rate environments. The non-bank financial issuers provide exposure to: (i) large capitalization financial issuers that have a history of strong capital appreciation and consistent increases in dividend or distribution rates; and (ii) REITs, which have historically provided stable monthly distributions and capital appreciation and which the Manager expects will benefit from continued growth in the real estate sector and consolidation activity. The Portfolio is intended to provide diversified exposure to large capitalization companies and REITs which pay regular dividends or distributions, have exhibited high and stable cash flows and have potential for growth.

INVESTMENTS OF THE COMPANY

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: To provide their holders with: (i) 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 distributions and dividends 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. Assuming an offering size of \$50 million, the Class A Shares would have a yield of approximately 1.81% per annum as at January 16, 2007 based on the Company pursuing its noted investment objectives, the current Portfolio dividend and distribution levels and other assumptions described in this prospectus under “Description of Share Capital — Certain Provisions of the Class A Shares”, if calculated on the basis that the Manager and the Leverage Agent elect to receive their fees in Units and approximately 0.79% per annum as at January 16, 2007 based on the Company pursuing its noted investment objectives, if calculated on the basis that the Manager and Leverage Agent elect to receive their fees in cash.

To the extent necessary to achieve the current estimated distribution of 1.81% per annum as at January 16, 2007 on the Class A Shares (assuming an offering size of \$50 million), the Manager and the Leverage Agent will elect to receive such fees in Units. The level of distributions paid on the Class A Shares will depend on the dividends and distributions received on the Portfolio Securities and therefore is expected to fluctuate from month to month.

Investment Guidelines

The net proceeds of the offering will be invested in the equity securities of the six largest Canadian banks listed below, in the Canadian utilities and pipeline issuers and in the Canadian non-bank financial issuers listed below (the “Portfolio Securities”).

**Non-Bank Financial Issuers
(35% weight: 2.4% each non-REIT
issuer, 2.1% each REIT issuer)**

Manulife Financial Corporation
Great-West Lifeco Inc.
Sun Life Financial Inc.
IGM Financial Inc.
CI Financial Income Fund
Riocan REIT
H&R REIT
Calloway REIT
Boardwalk REIT
Canadian REIT
Dundee REIT
Canadian Apartment Properties
REIT
Primaris Retail REIT
Cominar REIT
Morguard REIT
Alexis Nihon REIT⁽¹⁾

**Banks
(42% weight: 7% each issuer)**

Royal Bank of Canada
The Bank of Nova Scotia
The Toronto-Dominion Bank
Bank of Montreal
Canadian Imperial Bank of
Commerce
National Bank of Canada

**Utilities and Pipeline Issuers
(23% weight: 3.3% each issuer)**

TransCanada Corporation
Enbridge Inc.
Canadian Utilities Inc.
Transalta Corporation
Fortis Inc.
Atco Ltd.
Emera Ltd.

⁽¹⁾ Cominar REIT has agreed to acquire all the outstanding units of Alexis Nihon REIT for \$18.50 or 0.77 Cominar REIT units per Alexis Nihon unit. The transaction is subject to the approval of $\frac{2}{3}$ of Alexis Nihon unitholders at a special meeting scheduled for February 22, 2007. If the transaction is approved, the Manager intends to replace Alexis Nihon with another Canadian REIT. If, in the opinion of the Manager, no suitable such replacement is available, the weighting of the remaining REITs in the Portfolio will be increased such that the percentage of the Portfolio invested in REITs is approximately 23.1%.

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

Active Leverage Management

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 by 34% or more relative to the value of the initial Portfolio, 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

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.

A de-leveraging event will also occur in the event that the Interest Coverage Ratio is less than 1.5 for any calendar quarter. The estimated Interest Coverage Ratio at inception is approximately 1.64.

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 by 34% 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 by more than 34%, and (iv) the ability to re-establish leverage after a de-leveraging event as the Portfolio's value increases.

RBC Dominion Securities Inc. will act as the Leverage Agent for the Company pursuant to a leverage management agreement (the "Leverage Management Agreement") to be dated on or prior to the Closing Date.

Rebalancing Criteria

The Portfolio will be 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 effected to rebalance the Portfolio will be subject to the confirmation of 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 will, at the time of rebalancing, calculate the market value of the Portfolio and determine whether the weighting of each issuer in the Portfolio is approximately equal to its initial weighting. The Manager will then invest 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 will be 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.

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.

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.

THE PORTFOLIO

Composition

The Company will invest the net proceeds of the offering primarily in shares and trust units of the issuers listed above under “Investments of the Company — Investment Guidelines”.

Trading History of the Securities of the Portfolio Issuers

The following table sets forth the closing market prices of the common shares and trust units of the Portfolio on the TSX on the dates indicated:

The information in the following tables is based on publicly available information, is historical and is not intended to be, and should not be construed as, an indication of the future levels of market value or yield on the the Portfolio Securities.

Trading History of the Portfolio Issuers

Name	January 16, ⁽¹⁾ 2007	Closing Prices as at December 31 ⁽¹⁾					
		2006	2005	2004	2003	2002	2001
Banks							
Royal Bank of Canada	\$54.32	\$55.50	\$45.41	\$32.13	\$30.90	\$28.93	\$25.92
The Bank of Nova Scotia	\$51.57	\$52.10	\$46.14	\$40.70	\$32.90	\$26.33	\$24.48
The Toronto-Dominion Bank	\$69.27	\$69.72	\$61.13	\$49.92	\$43.29	\$34.01	\$41.08
Bank of Montreal	\$69.32	\$69.00	\$65.00	\$57.76	\$53.50	\$41.69	\$35.90
Canadian Imperial Bank of Commerce	\$99.19	\$98.30	\$76.41	\$72.23	\$64.00	\$43.52	\$54.85
National Bank of Canada	\$64.23	\$65.84	\$60.32	\$49.56	\$43.14	\$32.30	\$29.70
Utilities and Pipelines Issuers							
TransCanada Corporation	\$39.00	\$40.61	\$36.65	\$29.80	\$27.88	\$22.92	\$19.87
Enbridge Inc.	\$39.14	\$40.27	\$36.34	\$29.85	\$26.85	\$21.31	\$21.70
Canadian Utilities Ltd.	\$42.50	\$47.73	\$43.98	\$30.16	\$28.93	\$25.61	\$24.88
Transalta Corporation	\$26.57	\$26.64	\$25.41	\$18.05	\$18.53	\$17.11	\$21.60
Fortis Inc.	\$28.16	\$29.77	\$24.27	\$17.38	\$14.73	\$13.13	\$11.74
Atco Ltd.	\$45.80	\$50.33	\$40.95	\$29.25	\$24.00	\$21.50	\$23.38
Emera Ltd.	\$22.84	\$22.60	\$21.04	\$19.17	\$17.85	\$16.05	\$16.74
Non-Bank Financials							
Manulife Financial Corporation	\$39.45	\$39.35	\$34.14	\$27.70	\$20.93	\$17.20	\$20.80
Great-West Lifeco Inc.	\$34.49	\$33.80	\$30.70	\$26.70	\$22.75	\$18.63	\$17.15
Sun Life Financial Inc.	\$50.09	\$49.32	\$46.73	\$40.15	\$32.30	\$26.71	\$33.95
IGM Financial Inc.	\$47.63	\$49.10	\$46.12	\$36.64	\$31.05	\$26.75	\$25.50
CI Financial Income Fund ⁽²⁾	\$26.51	\$26.72	\$25.00	\$18.01	\$14.04	\$10.00	\$11.89
Riocan REIT	\$25.95	\$25.15	\$22.79	\$17.75	\$15.30	\$12.47	\$12.13
H&R REIT	\$25.50	\$24.09	\$20.80	\$18.99	\$15.89	\$13.35	\$13.80
Calloway REIT	\$29.40	\$27.60	\$23.74	\$18.75	\$13.75	\$ 9.85	na
Boardwalk REIT	\$41.85	\$41.29	\$21.19	\$18.45	\$17.92	\$15.18	\$11.58
Canadian REIT	\$30.92	\$31.47	\$22.53	\$17.75	\$15.97	\$13.13	\$12.71
Dundee REIT	\$40.65	\$38.65	\$25.70	\$25.60	\$23.40	\$15.45	\$13.50
Canadian Apartment Properties REIT	\$19.09	\$18.58	\$16.15	\$15.08	\$15.36	\$12.95	\$14.20
Primaris Retail REIT	\$19.60	\$18.88	\$16.34	\$13.38	\$11.67	na	na
Cominar REIT	\$23.91	\$22.50	\$19.27	\$17.26	\$14.79	\$12.07	\$12.00
Morguard REIT	\$14.25	\$13.74	\$11.00	\$10.30	\$ 9.30	\$ 8.50	\$ 8.20
Alexis Nihon REIT	\$18.15	\$17.06	\$13.30	\$12.55	\$13.49	\$ 9.95	na

(1) As of the close of the regular trading session on the TSX.

(2) Includes closing price of common shares of corporate predecessor prior to income trust conversion on June 30, 2006.

Source: Bloomberg

Dividend and Distribution History of the Securities of the Portfolio Issuers

	Dividends (Distributions) for the 12 months ended December 31 ⁽¹⁾					
	2006	2005	2004	2003	2002	2001
Banks						
Royal Bank of Canada	\$1.52	\$1.18	\$1.01	\$0.86	\$0.76	\$0.69
The Bank of Nova Scotia	\$1.56	\$1.36	\$1.42	\$0.84	\$0.56	\$0.65
The Toronto-Dominion Bank	\$1.84	\$1.64	\$1.40	\$1.20	\$1.12	\$1.12
Bank of Montreal	\$2.42	\$1.85	\$1.59	\$1.34	\$1.20	\$1.12
Canadian Imperial Bank of Commerce	\$2.78	\$2.69	\$2.35	\$1.73	\$1.64	\$1.48
National Bank of Canada	\$2.02	\$1.78	\$1.51	\$1.15	\$0.98	\$0.84
Utilities and Pipelines						
TransCanada Corporation	\$1.28	\$1.22	\$1.16	\$1.08	\$1.00	\$0.90
Enbridge Inc.	\$1.15	\$1.04	\$0.92	\$0.83	\$0.76	\$0.70
Canadian Utilities Ltd.	\$1.15	\$1.21	\$1.18	\$1.15	\$1.11	\$1.09
Transalta Corporation	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Fortis Inc.	\$0.67	\$0.59	\$0.54	\$0.52	\$0.49	\$0.47
Atco Ltd.	\$0.82	\$0.76	\$0.70	\$0.64	\$0.58	\$0.52
Emera Ltd.	\$0.89	\$0.89	\$0.88	\$0.86	\$0.86	\$0.85
Non-Bank Financials						
Manulife Financial Corporation	\$0.73	\$0.58	\$0.47	\$0.39	\$0.30	\$0.24
Great-West Lifeco Inc.	\$0.93	\$0.81	\$0.69	\$0.56	\$0.47	\$0.39
Sun Life Financial Inc.	\$1.15	\$0.99	\$0.86	\$0.68	\$0.56	\$0.48
IGM Financial Inc.	\$1.54	\$1.34	\$1.15	\$0.99	\$0.86	\$0.73
CI Financial Income Fund ⁽²⁾	\$1.49	\$0.66	\$0.60	\$0.36	\$0.24	\$0.04
Riocan REIT	\$1.30	\$1.27	\$1.23	\$1.14	\$1.11	\$1.08
H&R REIT	\$1.33	\$1.30	\$1.24	\$1.22	\$1.20	\$1.16
Calloway REIT	\$1.47	\$1.37	\$1.22	\$1.15	\$0.19	na
Boardwalk REIT	\$1.30	\$1.26	\$0.90	\$0.19	\$0.05	\$0.05
Canadian REIT	\$1.29	\$1.27	\$1.25	\$1.23	\$1.20	\$1.17
Dundee REIT	\$2.20	\$2.20	\$2.20	\$1.10	\$0.00	\$0.00
Canadian Apartment Properties REIT	\$1.08	\$1.08	\$1.08	\$1.07	\$1.06	\$1.05
Primaris Retail REIT	\$1.14	\$1.11	\$1.05	\$0.47	na	na
Cominar REIT	\$1.22	\$1.21	\$1.18	\$1.15	\$1.11	\$1.09
Morguard REIT	\$0.90	\$0.90	\$0.90	\$0.90	\$0.90	\$0.90
Alexis Nihon REIT	\$1.10	\$1.10	\$1.10	\$1.10	\$0.04	na

(1) Dividends (distributions) have been adjusted for stock (unit) splits.

(2) Dividend (distribution) history includes dividends paid by corporate predecessor before income trust conversion on June 30, 2006.

Source: Bloomberg

Market Capitalization, Yield, Historical Total Returns and Dividend and Distribution Growth

Name	Market Capitalization (millions) ⁽¹⁾	Yield ⁽²⁾	5-Year Total Return ⁽³⁾	10-Year Total Return ⁽³⁾	5 Year Dividend Growth ⁽⁴⁾
Banks					
Royal Bank of Canada	\$69,578	2.95%	20.38%	19.12%	17.11%
The Bank of Nova Scotia	\$51,003	3.26%	20.58%	19.55%	19.14%
The Toronto-Dominion Bank	\$49,694	2.77%	13.92%	17.48%	10.44%
Bank of Montreal	\$34,710	3.75%	18.17%	15.49%	16.66%
Canadian Imperial Bank of Commerce	\$33,326	2.82%	16.29%	16.60%	13.44%
National Bank of Canada	\$10,374	3.36%	21.24%	20.36%	19.18%
Weighted Average	\$41,447	3.15%	18.43%	18.10%	15.99%
Utilities and Pipelines					
TransCanada Corporation	\$19,046	3.28%	19.59%	11.99%	7.30%
Enbridge Inc.	\$13,748	3.14%	16.89%	18.72%	10.44%
Canadian Utilities Ltd.	\$ 5,325	2.73%	14.94%	14.67%	1.15%
Transalta Corporation	\$ 5,351	3.76%	9.85%	10.13%	0.00%
Fortis Inc.	\$ 2,920	2.70%	24.59%	17.53%	7.46%
Atco Ltd.	\$ 2,688	1.79%	17.68%	17.08%	9.54%
Emera Ltd.	\$ 2,531	3.90%	11.38%	10.32%	0.92%
Weighted Average	\$ 7,373	3.04%	16.42%	14.35%	5.26%
Non-Bank Financials					
Manulife Financial Corporation	\$60,990	2.03%	15.96%	24.48%	24.75%
Great-West Lifeco Inc.	\$30,734	2.78%	18.34%	23.79%	18.92%
Sun Life Financial Inc.	\$28,704	2.40%	11.18%	22.87%	19.09%
IGM Financial Inc.	\$12,612	3.34%	16.67%	17.13%	16.03%
CI Financial Income Fund ⁽⁵⁾	\$ 7,530	8.15%	21.63%	31.39%	110.13%
Riocan REIT	\$ 5,157	5.09%	24.89%	21.98%	3.83%
H&R REIT	\$ 2,825	5.37%	21.86%	19.15%	2.77%
Calloway REIT	\$ 2,385	5.10%	39.88%	na	8.42%
Boardwalk REIT	\$ 2,167	3.54%	33.68%	21.15%	91.76%
Canadian REIT	\$ 1,782	4.20%	27.91%	18.03%	2.00%
Dundee REIT	\$ 1,537	5.40%	29.52%	8.47%	0.00%
Canadian Apartment Properties REIT	\$ 1,143	5.66%	14.18%	16.30%	0.57%
Primaris Retail REIT	\$ 1,008	6.02%	29.93%	na	4.23%
Cominar REIT	\$ 866	5.12%	23.96%	21.10%	2.35%
Morguard REIT	\$ 741	6.32%	20.71%	11.15%	0.00%
Alexis Nihon REIT	\$ 470	6.06%	26.38%	na	0.00%
Weighted Average	\$10,813	4.74%	23.25%	19.99%	19.85%
Portfolio Weighted Average	\$22,892	3.68%	19.66%	17.76%	14.89%

(1) Market Capitalization is based on the closing market price on January 16, 2007 multiplied by the number of shares (units) outstanding as of the date of the latest published financial statements.

(2) Yield equals most recently announced dividend or other distribution rate annualized, divided by the closing market price of the security on January 16, 2007.

(3) Total return is compounded annual growth rate (“CAGR”) assuming reinvestment of dividends or distributions and is for the period ending on January 16, 2007, except for issuers with less than 5 or 10-year public history, in which case total return CAGRs are from the period from inception to January 16, 2007.

(4) Compounded annual growth rate is based on the period from January 16, 2002 or since inception to January 16, 2007.

(5) Dividend (distribution) growth includes dividends paid by corporate predecessor before conversion into an income trust.

Voting Rights in the Portfolio Securities

The Company has delegated to the Manager the responsibility for voting on matters for which the Company receives, in its capacity as a securityholder of an issuer in the Portfolio, proxy materials for a meeting of

securityholders. The Manager has adopted policies and procedures governing the manner in which voting is executed. Those policies recognize that the Manager must vote client securities in a timely manner and make voting decisions that are in the best interests of its clients, including the Company. In addition to the Manager’s own research, the Manager retains Institutional Shareholder Services, an independent proxy review service, to provide an analysis of all non-routine proxy issues. Routine issues typically include the election of directors and the appointment of auditors. Absent a proxy fight or other compelling reason to consider withholding votes for directors or auditors, the Manager will generally support management’s proposals. Non-routine issues typically include changes in capital structure, mergers and acquisitions and proposals affecting securityholder rights. With respect to such issues, the Manager will consider Institutional Shareholder Services’ recommendation in applying its own policies and procedures to make voting decisions.

Working Capital Credit Facility

Following closing, the Company intends to establish a Working Capital Credit Facility which may be used by the Company for working capital purposes. The Company expects that the maximum amount it borrows thereunder will be limited to 2.5% of NAV. The Company may pledge Portfolio Securities as collateral for amounts borrowed thereunder. The total amount borrowed by the Company under the Working Capital Credit Facility and the Additional Leverage Credit Facility will be limited to 20% of the net assets of the Company at all times.

Utilization of Cash and Cash Equivalents

The Company may, from time to time, hold a portion of its assets in cash and cash equivalents. See “Investments of the Company — Active Leverage Management”

Use of Other Derivative Instruments

To the extent permitted by Canadian securities regulators from time to time, the Company may also purchase put options in order to protect the Company from declines in the market prices of the individual Portfolio Securities or in the value of the Portfolio as a whole. The Company may enter into trades to close out positions in such permitted derivatives. The Company does not have any policies or practices with respect to the use of derivatives, other than compliance with NI 81-102.

MANAGEMENT OF THE COMPANY

Directors and Officers of the Company

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

<u>Name and Municipality</u>	<u>Position with the Company</u>	<u>Principal Occupation</u>
W. NEIL MURDOCH Oakville, Ontario	Director, President and Chief Executive Officer	Director, President and Chief Executive Officer, Connor, Clark & Lunn Capital Markets Inc.
PHILIP K. GOW Toronto, Ontario	Director, Chief Financial Officer, Secretary and Compliance Officer	Director, Chief Financial Officer, Secretary and Compliance Officer, Connor, Clark & Lunn Capital Markets Inc.
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 is the Chair 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.

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.

Directors of the Company, other than employees of the Manager, will receive remuneration for their services as directors. All of the directors and officers of the Company have held the same principal occupation for the five years preceding the date hereof, other than Mr. Murdoch, whose previous principal occupation is described below under “Officers and Directors of the Manager”.

On November 1, 2006, *National Instrument 81-107 — Independent Review Committee for Investment Funds* (“NI 81-107”) came into force. NI 81-107 requires all investment funds that are reporting issuers, including the Company upon obtaining a receipt for a final prospectus, to establish an independent review committee to whom the Company must refer all conflict of interest matters for review or approval. NI 81-107 also imposes obligations upon the Company 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, adopt a written charter setting forth its mandate, responsibilities and functions and the policies and procedures it will follow when performing its functions and will be subject to requirements to conduct regular assessments and provide reports to the Company and its Shareholders in respect of its functions.

The initial members of the independent review committee must be appointed prior to May 1, 2007 and full compliance with NI 81-107 is required by November 1, 2007. The Manager, on behalf of the Company, intends to implement the measures required to comply with NI 81-107, including appointing the members of the independent review committee. The Company will bear the costs associated with complying with NI 81-107.

Remuneration of Directors and Officers

The officers and directors of the Company, other than the non-management directors of the Company, will receive their remuneration from the Manager. 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. Compensation for the non-management directors of the Company is currently \$10,000 per director per year.

THE MANAGER

Connor, Clark & Lunn Capital Markets Inc. will perform management services for the Company pursuant to a management agreement (the “Management Agreement”) to be dated on or prior to the Closing Date. The Manager will be entitled to receive fees as compensation for management services rendered to the Company. See “Fees and Expenses”.

The Manager is a registered investment counsel/portfolio manager, and has over \$1.1 billion in assets under management as at December 31, 2006. The Manager is part of the Connor, Clark & Lunn Financial Group (the “CC&L Group”), which also includes Connor, Clark & Lunn Investment Management Ltd., Connor, Clark & Lunn Private Capital Ltd., Baker Gilmore & Associates Inc., PCJ Investment Counsel Ltd., Scheer Rowlett & Associates Investment Management Ltd., New Star Canada Inc., Connor, Clark & Lunn Arrowstreet Capital Ltd., Global Alpha Capital Management Ltd. and Banyan Capital Partners Management Partnership. The CC&L Group, with approximately \$32 billion in assets under management as at June 30, 2006, offers

professional management of financial assets for pension plan sponsors, capital accumulation plans, corporations, foundations, mutual funds and individual investors.

Directors and Officers 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:

<u>Name and Municipality</u>	<u>Position with the Manager</u>	<u>Principal Occupation</u>
W. NEIL MURDOCH Oakville, Ontario	Director, President and Chief Executive Officer	Director, President and Chief Executive Officer, Connor, Clark & Lunn Capital Markets Inc.
PHILIP K. GOW Toronto, Ontario	Director, Chief Financial Officer, Secretary and Compliance Officer	Director, Chief Financial Officer, Secretary and Compliance Officer, Connor, Clark & Lunn Capital Markets Inc.
MICHAEL W. FREUND Toronto, Ontario	Director and Chairman	Managing Partner, Connor, Clark & Lunn Financial Group
TIMOTHY E. BRADSHAW Toronto, Ontario	Senior Vice-President and National Sales Manager	Senior Vice-President and National Sales Manager, Connor, Clark & Lunn Capital Markets Inc.
JENNIFER L. STEWART Toronto, Ontario	Vice-President	Vice-President, Connor, Clark & Lunn Capital Markets Inc.
BONNIE L. M. CHWARTACKI Winnipeg, Manitoba	Vice-President Sales, Western Canada	Vice-President, Sales, Western Canada, Connor, Clark & Lunn Capital Markets Inc.
VICTORIA L. JONAS Beaconsfield, Québec	Vice-President Sales, Quebec	Vice-President, Sales, Quebec, Connor, Clark & Lunn Capital Markets Inc.

W. Neil Murdoch: *CFA, B.Comm, McGill University; LLB, University of Toronto; Master of Management, Kellogg Graduate School of Management, Northwestern University.* 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.

Philip K. Gow: *CFA, BA, Dalhousie University; MBA, Saint Mary's University.* Mr. Gow 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 has been a director and Chief Financial Officer of Connor, Clark & Lunn Capital Markets Inc. since April 2001.

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.

Timothy E. Bradshaw: *CFA, B.Comm. McGill University, MBA London Business School.* Mr. Bradshaw joined Connor, Clark & Lunn Capital Markets Inc. in May 2006. Prior thereto, Mr. Bradshaw was a Vice-President of TD Bank Financial Group from 2000 to October 2005.

Jennifer L. Stewart: *CFA, BA, University of Western Ontario.* Ms. Stewart has been with Connor, Clark & Lunn Capital Markets Inc. since March 2002. Prior thereto, Ms. Stewart was a Canadian Equities Specialist at Merrill Lynch Canada Inc., with a niche focus on the income trust and structured products areas.

Bonnie L.M. Chwartacki: *B.Comm (Hons.) University of Manitoba.* Ms. Chwartacki has been with Connor, Clark & Lunn Capital Markets Inc. since the fall of 2004. Prior thereto, Ms. Chwartacki was Regional Vice-President for Western Canada at AIC Group of Funds.

Victoria L. Jonas: *B.Ed., McGill University.* Ms. Jonas joined Connor, Clark & Lunn Capital Markets Inc. in December 2005. She was Senior Regional Sales Manager for Franklin Templeton Investments from 2002 until December 2005, Regional Vice-President at Spectrum Investments from 2001 until that company was sold to CI Funds in 2002 and, prior thereto, Regional Vice President and Director with AGF Group of Funds from 1987.

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 will be 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 wilful misconduct, bad faith or negligence or wilful 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.

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".

Leverage Management Agreement

The Leverage Agent, on behalf of the Company, will monitor 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 wilful misconduct, bad faith or negligence or wilful 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.

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 is engaged as lead Agent in connection with the offering under this prospectus 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.**

DESCRIPTION OF SHARE CAPITAL

The Company is authorized to issue an unlimited number of Preferred Shares, Class A Shares and Class J Shares of which, before giving effect to the offering under this prospectus, there are issued and outstanding 100 Class J Shares.

The holders of Class J Shares are not entitled to receive distributions. The holders of the Class J Shares will be 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.

A trust established for the benefit of the holders from time to time of the Preferred Shares and the Class A Shares owns all of the issued and outstanding Class J Shares. See “Principal Shareholder”.

The Company does not currently intend to issue additional Preferred Shares or Class A Shares following completion of this offering except as disclosed herein.

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

Certain Provisions of the Preferred Shares

Distributions

Holders of record of Preferred Shares on the last business day of December, March, June and September will be 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 will be 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 initial distribution on the Preferred Shares payable to Preferred Shareholders of record on March 30, 2007 is expected to be \$0.07 per Preferred Share, based on the period from the Closing Date to March 30, 2007. The Company will establish and maintain 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 will be 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. See "Description of Share Capital — Book Entry Only System" and "Canadian Federal Income Tax Considerations".

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.

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.

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.

Certain Provisions of the Class A Shares

Distributions

The Company intends to pay monthly non-cumulative distributions to the holders of Class A Shares in an amount reflecting the distributions, dividends and net realized capital gains received by the Company from the Portfolio Securities less any distributions payable on the Preferred Shares, operating expenses and any other obligations of the Company.

Assuming an offering size of \$50 million, the Class A Shares would have a yield of approximately 1.81% per annum as at January 16, 2007, based on the Company pursuing its noted investment objectives, the current Portfolio dividend and distribution levels and other assumptions described in this prospectus. This yield is calculated on the basis that the Manager and Leverage Agent will elect to receive their respective fees in Units. To the extent necessary to achieve the current estimated distribution of 1.81% per annum on the Class A Shares, the Manager and the Leverage Agent will elect to receive such fees in Units. If the Management Fee and the Leverage Agent Fee were paid entirely in cash and without giving effect to any net realized capital gains on the Portfolio Securities, the annualized yield on the original subscription price of the Class A Shares would be 0.79% per annum as of January 16, 2007 based on the Company pursuing its noted investment objectives. The payment of the Management Fee and Leverage Agent Fee in Units will result in dilution to the Net Asset Value equivalent to the cash amount of the Management Fee and Leverage Agent Fee paid in Units. Distributions on the Class A Shares are expected to be primarily return of capital. The level of distributions paid on the Class A Shares will depend on the dividends and distributions received from the Portfolio Securities and therefore is expected to fluctuate from month to month.

Such distributions will be paid on or before the 15th day of the month following the month in respect of which the distribution is made. Such distributions may consist of ordinary dividends, capital gains dividends or returns of capital. Assuming an offering size of \$50 million, the initial distribution payable to Class A Shareholders of record on February 28, 2007 is expected to be \$0.02 per Class A Share. There can be no assurance that the Company will be able to pay distributions to the holders of Class A Shares at the expected rate or at all.

No distributions will be paid on the Class A Shares if (i) the distributions payable on the Preferred Shares are in arrears, or (ii) there is no net cash flow remaining after the payment of Preferred Share distributions, operating expenses and any other obligations of the Company. In addition, it is intended that the Company will not pay special distributions unless the Company would need to make such distributions so as to fully recover refundable taxes.

In the event that the Company realizes capital gains, the Company may, at its option, declare and pay a special year end capital gains dividend in certain circumstances, including where the Company has net realized capital dividend, in Class A Shares and/or cash. Any capital gains distribution payable in Class A Shares may be made only after the first anniversary of the Closing Date and will increase the aggregate adjusted cost base to Shareholders of such Shares. Immediately following payment of such a distribution in Class A Shares, the number of Class A Shares outstanding will be automatically consolidated such that the number of Class A Shares outstanding after such distribution will be equal to the number of Class A Shares outstanding immediately prior to such distribution.

Distribution will be payable to holders of Class A Shares of record at 5:00 p.m. (Toronto time) on the Class A Record Date. All cash distributions will be paid through CDS' book-entry only system or paid in such other manner as may be determined by the Company. Each holder of Class A 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. See "Description of Share Capital — Book Entry Only System" and "Canadian Federal Income Tax Considerations".

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.

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.

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.

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. On or about February 6, 2007, but no later than February 28, 2007, the Company will deliver to CDS certificates evidencing the aggregate number of Preferred Shares and Class A Shares subscribed for under this 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 prospectus 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.

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.

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.

NET ASSET VALUE AND NAV PER UNIT

The Net Asset Value of the Company on a particular date will be 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, will, at a minimum be 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) shall be 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 will be 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 will be 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 will be 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 will be 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 will be calculated in Canadian dollars.

SHAREHOLDER MATTERS

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.

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.

Reporting to Shareholders

The Company will deliver to Shareholders annual and interim financial statements of the Company as may be required by applicable law.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Stikeman Elliott LLP, counsel to the Company, and Davies Ward Phillips & Vineberg LLP, counsel to the Agents, the following is a summary of the principal Canadian federal income tax considerations generally relevant to investors who, for purposes of the Tax Act and at all relevant times, are resident or are deemed to be resident in Canada, hold their Preferred Shares and their Class A Shares as capital property, and deal at arm's length with and are not affiliated with the Company. This summary is based upon the facts set out in this prospectus, the current provisions of the Tax Act and the regulations thereunder (the "Regulations"), and counsel's understanding of the current published administrative practices of the CRA and relies as to certain factual matters on certificates of officers of the Company and lead Agent. This summary is based on the assumption that the Class A Shares or the Preferred Shares will at all times be listed on a prescribed stock exchange in Canada (which currently includes the TSX). This summary is based on the assumption that the Company was not established and will not be maintained primarily for the benefit of non-residents of Canada and at no time will the total fair market value of the shares of the Company held by persons who are non-residents of Canada and/or partnerships (other than Canadian partnerships within the meaning of the Tax Act) exceed 50% of the fair market value of all of the outstanding shares of the Company. This summary is based upon the assumption that the investment restrictions and permitted investments will at all relevant times be as set out under the heading "Investments of the Company" and that the Company will at all times comply with such investment restrictions and hold only permitted investments. This summary is based on the assumption that the issuers of securities held by the Company will not be foreign affiliates of the Company or a shareholder of the Company. This summary also takes into account all specific proposals to amend the Tax Act or the Regulations announced prior to the date hereof by the Minister of Finance (Canada) (the "Proposed Amendments") and assumes that all Proposed Amendments will be enacted in the form prepared. No assurances can be given that the Proposed Amendments will become law as proposed or at all.

This summary is not exhaustive of all possible Canadian federal income tax considerations and, in particular, does not describe income tax considerations relating to the deductibility of interest on money borrowed to acquire Preferred Shares and Class A Shares. This summary does not take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, other than the Proposed Amendments. This summary does not deal with foreign, provincial or territorial income tax considerations, which might differ from the federal considerations. This summary does not apply to Shareholders that are "financial institutions" as defined in section 142.2 of the Tax Act, or to a Shareholder an interest in which is a "tax shelter investment" as defined in subsection 143.2(1) of the Tax Act.

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

Tax Treatment of the Company

This summary is based on the assumptions that the Company will qualify at all times as a "mutual fund corporation" within the meaning of the Tax Act and that the Company will elect under the Tax Act to be a public corporation from the date it was established. To so qualify, the Company must be a "public corporation", the sole undertaking of the Company must, in general, be the investing of its funds in property (other than real property or interests in real property), and the Shares must be redeemable at the demand of the holders of those shares. If the Company were to fail to qualify as a mutual fund corporation, the income tax considerations described below would in some respects be materially and adversely different.

As a mutual fund corporation, the Company will be 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 will be required to include in income all dividends received by the Company in the year and will generally be permitted to deduct all dividends received by it from taxable Canadian corporations. The Company will generally not be 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 will be 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 will generally be 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 will be required to include or, subject to certain restrictions, will be 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 will elect 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 will purchase 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 $\frac{1}{3}$ % 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 will be 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.

SIFT Proposals

On October 31, 2006, the Minister of Finance (Canada) announced proposals to tax certain publicly-traded income trusts and partnerships. Draft legislation relating to these changes was released for public comment on December 21, 2006 (the “SIFT Proposals”). The SIFT Proposals provide a new tax regime for certain publicly traded “specified investment flow-through” trusts and partnerships (defined as “SIFT trusts” and “SIFT partnerships”, respectively) and their investors. The Portfolio currently contains one entity that will be a SIFT Trust and may include other investments in entities that will be SIFT Trusts according to the SIFT Proposals, although it is not the Manager’s intention to invest in other SIFT Trusts.

A SIFT Trust will be prevented from deducting amounts distributed to investors that are attributable to non-portfolio earnings, which will include: (i) income from a business carried on in Canada by the SIFT Trust; (ii) income (other than taxable dividends received by the SIFT trust) from “non-portfolio properties”; and (iii) capital gains from the disposition of “non-portfolio properties”. Non-portfolio earnings will be taxed at a reduced rate equal to the federal corporate tax rate plus a flat 13% rate on account of provincial tax.

REITs that meet certain specified criteria relating to the nature of their income and investments will be exempt from the SIFT trust taxation regime (the “REIT Exemption”). The Manager has included REITs in the Portfolio which the Manager believes will qualify for the REIT Exemption but no assurance can be provided in this regard until the final legislation has been released.

The SIFT Proposals will generally not apply to taxation years of issuers that end before 2011 where securities of the issuer have been publicly traded before November 1, 2006. In all other cases, the SIFT Proposals will generally apply commencing at the beginning of the 2007 calendar year. The SIFT Proposals stipulate that any non-portfolio earnings that become payable by an issuer that is a SIFT trust, or that is allocated to partners in the case of a SIFT partnership, will generally be taxed as though such earnings were a taxable dividend from a taxable Canadian corporation.

Tax Treatment of Shareholders

Shareholders must include in income Ordinary Dividends paid to them by the Company. For individual Shareholders, Ordinary Dividends will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends paid by taxable Canadian corporations. Bill C-28, which received first reading in the Senate on December 11, 2006, would enhance the gross-up and dividend tax credit for “eligible dividends” (as defined therein) received after 2005 from taxable Canadian corporations. For corporate Shareholders, other than “specified financial institutions” (as defined in the Tax Act), Ordinary Dividends will normally be 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 will be 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) will generally be liable to pay a 33⅓% 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 $\frac{1}{3}$ %.

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. See "Disposition of Shares" below.

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.

Disposition of Shares

Upon the redemption, retraction or other disposition of a Share, a capital gain (or a capital loss) will be realized to the extent that the proceeds of disposition of the Share exceed (or are less than) the aggregate of the adjusted cost base of the Share and any reasonable costs of disposition. If the Shareholder is a corporation, any capital loss arising on the disposition of a share may in certain circumstances be reduced by the amount of any Ordinary Dividends received on the share. Analogous rules apply to a partnership or trust of which a corporation, partnership or trust is a member or beneficiary. The adjusted cost base of each Share will generally be the weighted average of the cost of the Shares of that class acquired by a Shareholder at a particular time and the aggregate adjusted cost base of any Shares of that class held immediately before the particular time.

One half of a capital gain (a taxable capital gain) is included in computing income and one half of a capital loss (an allowable capital loss) is deductible against taxable capital gains in accordance with the provisions of the Tax Act. A Shareholder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable for an additional refundable tax of 6 $\frac{2}{3}$ % on aggregate investment income, which is defined to include taxable capital gains.

Individuals (other than certain trusts) who realize net capital gains or dividends may be subject to an alternative minimum tax under the Tax Act.

ELIGIBILITY FOR INVESTMENT

In the opinion of Stikeman Elliott LLP and Davies Ward Phillips & Vineberg LLP, provided that the Preferred Shares or the Class A Shares are listed on a prescribed stock exchange, the Shares will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans. Trusts governed by registered education savings plans should consult their own advisors as to eligibility.

USE OF PROCEEDS

The Company will use the proceeds from the sale of Preferred Shares and Class A Shares as follows:

	<u>Maximum Offering</u>	<u>Minimum Offering</u>
Gross proceeds to the Company	\$125,000,000	\$35,000,000
Agents' fees	\$ 6,000,000	\$ 1,680,000
Expenses of issue	<u>\$ 690,000</u>	<u>\$ 630,000</u>
Net proceeds to the Company	<u>\$118,310,000</u>	<u>\$32,690,000</u>

The Company will use the net proceeds of the offering (including any net proceeds from the exercise of the Over-Allotment Option to invest in securities in accordance with the Investment Objectives, Investment Guidelines and Rebalancing Criteria of the Company as described herein (see “Investments of the Company — Investment Restrictions”) as soon as possible after closing and to fund the ongoing fees and expenses of the Company as described herein (see “Fees and Expenses”).

PLAN OF DISTRIBUTION

Pursuant to the Agency Agreement, the Agents have agreed to offer the Preferred Shares and Class A Shares for sale, as agents of the Company, on a best efforts basis, if, as and when issued by the Company. The Agents will receive a fee equal to \$0.30 for each Preferred Share sold (which represents 3% of the price of a Preferred Share) and \$0.90 for each Class A Share sold (which represents 6% of the price of a Class A Share) and will be reimbursed for out-of-pocket expenses incurred by them. The Agents may form a sub-agency group including other qualified investment dealers and determine the fee payable to the members of such group, which fee will be paid by the Agents out of their fees. While the Agents have agreed to use their best efforts to sell the Preferred Shares and the Class A Shares offered hereby, the Agents will not be obligated to purchase Preferred Shares and Class A Shares which are not sold.

The Company has granted the Agents an Over-Allotment Option. This prospectus qualifies the distribution of the Over-Allotment Option, and the Preferred Shares and the Class A Shares issuable on the exercise thereof. The Agents may exercise the Over-Allotment Option in whole or in part at any time on or before the close of business on the 30th day following the closing of this offering. To the extent that the Over-Allotment Option is exercised, the additional Preferred Shares and Class A Shares will be offered at the offering prices hereunder and the Agents will be entitled to a fee of \$0.30 per Preferred Share and \$0.90 per Class A Share purchased.

If subscriptions for a minimum of 1,400,000 Preferred Shares and 1,400,000 Class A Shares have not been received within 90 days following the date of issuance of a final receipt for this prospectus, this offering may not continue without the consent of those who have subscribed on or before such date. Under the terms of the Agency Agreement, the Agents may, at their discretion on the basis of their assessment of the state of the financial markets and upon the occurrence of certain stated events, terminate the Agency Agreement. In the event that the minimum offering is not achieved by the Company and the necessary consents are not obtained or if the closing of the offering does not occur for any reason, subscription proceeds received from prospective purchasers will be returned to such purchasers promptly without interest or deduction. Subscriptions for Preferred Shares and Class A Shares will be received subject to rejection or allotment in whole or in part. The right is reserved to close the subscription books at any time without notice. Closing will take place on February 6, 2007 or such later date as may be agreed upon by the Company and the Agents that is on or before February 28, 2007.

The TSX has conditionally approved the listing of the Preferred Shares and the Class A Shares. The listing is subject to the Company fulfilling all of the requirements of the TSX on or before April 10, 2007, including distributions of the Preferred Shares and Class A Shares to a minimum number of public holders.

Pursuant to policy statements of certain Canadian securities regulators, the Agents may not, throughout the period of distribution, bid for or purchase Preferred Shares or Class A Shares. The foregoing restriction is subject to certain exceptions, on the conditions that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Preferred Shares and the Class A Shares. Such exceptions include a bid or purchase permitted under applicable by-laws and rules of the relevant self-regulatory authorities relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Pursuant to the first mentioned exception, in connection with this offering, the Agents may over-allot or effect transactions in connection with their over-allotted position. Such transactions, if commenced, may be discontinued at any time.

CAPITALIZATION

The capitalization of the Company at January 30, 2007 and at such date as adjusted to give effect to the issue and sale of the Preferred Shares and the Shares offered hereby, is set forth in the table below:

	Authorized	Outstanding as at January 30, 2007	To be outstanding as at February 6, 2007 after giving effect to these issues ⁽¹⁾ (unaudited)
Liabilities			
Preferred Shares	Unlimited	Nil	\$50,000,000 (5,000,000 Shares)
Share Capital			
Class A Shares	Unlimited	Nil	\$75,000,000 (5,000,000 Shares)
Class J Shares	Unlimited	\$100 (100 Shares)	\$100 (100 Shares)
Issue Costs		Nil	\$6,690,000
Total Capitalization ⁽²⁾		\$100	\$118,310,100

(1) Assumes the maximum amount of the offering.

(2) See Notes 1 and 3 to the Statement of Financial Position included in this prospectus.

PRINCIPAL SHAREHOLDER

All of the issued and outstanding Class J Shares of the Company are owned by a trust established for the benefit of the holders of the Preferred Shares and Class A Shares from time to time. The Class J Shares will be held in escrow pursuant to the Escrow Agreement and will not be disposed of or dealt with in any manner until all the Preferred Shares and Class A Shares have been retracted or redeemed, without the express consent, order or direction in writing of the Ontario Securities Commission.

FEES AND EXPENSES

Initial Expenses

The expenses of the 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) will, together with the Agents' fees, be paid by the Company from the gross proceeds of the offering. The initial expenses are estimated to be \$639,500, but will not exceed 1.5% of the gross proceeds of the offering.

Management Fee

The Manager will receive a Management Fee equal to 0.50% per annum of the Company's NAV calculated and payable monthly in arrears, plus applicable taxes. Following the closing, 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 will 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.

Leverage Agent Fee

The Leverage Agent will receive 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 will 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.

Service Fee

The Company will pay 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 will be 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 will be the NAV per Unit less \$10.00 plus any accrued and unpaid distributions on the Preferred Shares. The Service Fee payable to the Manager and the Service Fee payable by the Manager in respect of the quarter ending March 31, 2007 shall be pro-rated based on the fraction that the number of days from and including the closing of the offering to and including March 31, 2007 is of the number of days in the quarter ending March 31, 2007.

Ongoing Expenses

The Company will also pay 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 will 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 Manager estimates that 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, will be approximately \$214,000 per year (assuming an offering size of approximately \$50 million).

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The Manager, the Leverage Agent and the Custodian will receive the fees described under "Fees and Expenses" for their respective services to the Company and will be reimbursed by the Company for all expenses incurred in connection with the operation and administration of the Company.

In accordance with the requirements of the provincial securities regulatory authorities in connection with the offering, the Manager has undertaken to file insider trading reports, as if the Company was not a mutual fund corporation, in accordance with applicable securities legislation, for itself and to cause its affiliates, its directors and senior officers and the directors and senior officers of its affiliates who might ordinarily receive knowledge of material facts or changes with respect to the Company prior to the general disclosure of such facts and changes to file insider trading reports, as if the Company was not a mutual fund, in accordance with applicable securities legislation in respect of trades made by them in Preferred Shares or Class A Shares. The foregoing undertakings shall remain in full force until such time as all the Preferred Shares and Class A Shares have been redeemed.

MATERIAL CONTRACTS

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

- (a) the Management Agreement described under “The Manager — Management Agreement”;
- (b) the Leverage Management Agreement described under “The Leverage Agent”;
- (c) the Agency Agreement described under “Plan of Distribution”; and
- (d) the Escrow Agreement described under “Principal Shareholder”.

Copies of the agreements referred to above after the execution thereof may be inspected during business hours at the principal office of the Company during the course of distribution of the Preferred Shares and Class A Shares offered hereby.

RISK FACTORS

The following are certain considerations relating to an investment in Preferred Shares or Class A Shares which prospective investors should consider before purchasing such Shares:

Performance of the Portfolio Issuers and Other Considerations

The NAV per Unit varies as the value of the Portfolio Securities varies. The Company has no control over the factors that affect the value of the Portfolio Securities. Factors unique to each issuer included in the Portfolio, such as changes in its management, strategic direction, achievement of goals, mergers, acquisitions and divestitures, changes in distribution policies and other events, may affect the value of the Portfolio Securities. A substantial drop in the Canadian equities markets could have a negative effect on the Company and could lead to a significant decline in the value of the Portfolio and the value of the Shares, particularly the Class A Shares.

Concentration Risk

The Company will be invested at all times principally in issuers in the financial services, utilities and pipeline industries. The Company’s holdings will not be broadly diversified and the NAV per Unit may be more volatile than the value of a more broadly diversified portfolio and may fluctuate substantially over short periods of time. This may have a negative impact on the value of the Preferred Shares and the Class A Shares.

No Assurances on Achieving Objectives

There is no assurance that the Company will be able to achieve its distributions objectives or will return to investors an amount equal to or in excess of the original issue price of the Preferred Shares or the Class A Shares. There is no assurance that the Company will be able to pay quarterly distributions on the Preferred Shares or monthly distributions on the Class A Shares. The funds available for distributions to Shareholders will vary according to, among other things, the dividends and distributions paid on, and the value of, the Portfolio Securities. As the dividends and distributions received by the Company may not be sufficient to meet the Company’s objectives in respect of the payment of distributions, the Company may depend on the realization of capital gains to meet those objectives.

Sensitivity to Interest Rates

As the Company intends to make quarterly distributions of \$0.10625 per Preferred Share and fluctuating monthly distributions on the Class A Shares, the market price of the Preferred Shares and Class A Shares may be affected by the level of interest rates prevailing from time to time. Shareholders who wish to redeem or sell their Preferred Shares or Class A Shares prior to the Maturity Date will therefore be exposed to the risk that the market price of the Preferred Shares or Class A Shares may be negatively affected by interest rate fluctuations.

Greater Volatility of the Class A Shares

An investment in the Class A Shares represents a leveraged investment by virtue of the Preferred Shares, which have priority in payment of any distributions or any proceeds from the winding-up of the Company. This leverage amplifies the potential return to investors of Class A Shares in so far as returns in excess of the amounts payable to holders of Preferred Shares accrues to the benefit of the holders of Class A Shares. Conversely, any losses incurred by the Portfolio accrue to the detriment of the holders of the Class A Shares since the Preferred Shares rank prior to the Class A Shares in respect of distributions and proceeds upon the winding-up of the Company.

Changes in Credit Rating

A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time. There can be no assurance that the Preferred Shares will maintain their rating by DBRS for any given period of time or that the rating will not be lowered or withdrawn entirely by DBRS if, in DBRS' judgment, circumstances so warrant. A lowering or withdrawal of the rating of the Preferred Shares may have a negative effect on the market value of the Preferred Shares.

Liquidation of Portfolio of Securities

Following the occurrence of a de-leveraging event, the Leverage Agent, on behalf of the Company, will promptly sell Portfolio Securities having a minimum value equal to the subscription amount of the Preferred Shares. The liquidation of such Portfolio Securities may negatively affect the price of the Portfolio Securities and therefore, reduce the aggregate market value of the Portfolio.

As a practical matter, the Portfolio will be valued on a daily basis based on the previous trading day's market closing prices. If a de-leveraging event has occurred, the Leverage Agent will sell Portfolio Securities at the market closing prices on such day. Accordingly, the value of the Portfolio at the time that the Leverage agent disposes of Portfolio Securities following a de-leveraging event will likely be different than the value which caused the de-leveraging event to be triggered.

Use of Derivative Instruments

The Company is subject to the full risk of its investment position in the Portfolio Securities, including those securities that are subject to derivatives, should the market price of such securities decline.

Operating History

The Company is a newly organized investment company with no previous operating history. There is currently no public market for the Preferred Shares or the Class A Shares and there can be no assurance that an active public market will develop or be sustained after completion of this offering.

Changes in Legislation

There can be no assurance that income tax, securities, and other laws will not be changed in a manner which adversely affects the dividends and distributions received by the Company or by Shareholders. In particular, if the SIFT Proposals are enacted in the form announced, each issuer in the Portfolio that is a SIFT as defined under the SIFT Proposals (and that does not meet the REIT Exemption) will be subject to a special tax in respect of its non-portfolio earnings. The SIFT Proposals provide that non-portfolio earnings that are distributed by a trust that is a SIFT to its unitholders will be taxed at a rate that is equivalent to the federal general corporate tax rate plus 13% on account of provincial tax. If an issuer included in the Portfolio constitutes a SIFT (or the issuer has invested in one or more SIFTS), the distributions made by the issuer on its units may be materially reduced upon the application of the SIFT Proposals. The Manager has included REITs in the Portfolio which the Manager believes will qualify for the REIT Exemption but no assurance can be provided in this regard until the final legislation has been released.

The backgrounder released by the Minister of Finance (Canada) that contains much of the information relating to the SIFT Proposals is not legislation and therefore provides only a general description of the SIFT

Proposals. No final determination of the potential impact of the SIFT Proposals can be made until legislation incorporating the SIFT Proposals is released.

Taxation of the Company

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.

While the Company intends to operate so that it will generally not be liable to pay income tax, sufficient deductions may not be available to eliminate the Company’s taxable income.

Significant Redemptions

Shares are retractable annually and monthly as described under “Description of Share Capital — Certain Provision of the Preferred Shares — Retraction Privileges” and “Description of Share Capital — Certain Provisions of the Class A Shares — Retraction Privileges”. The purpose of the concurrent annual retraction right is to prevent the Shares from trading at a substantial discount to the NAV per Unit and to provide Class A Shareholders with the right to realize their investment once annually without any trading discount to the NAV. While the concurrent annual retraction right provides Class A Shareholders the option of annual liquidity at NAV, there can be no assurance that it will reduce trading discounts. If a significant number of Shares are retracted or redeemed, the trading liquidity of the Shares could be significantly reduced. In addition, the expenses of the Company would be spread among fewer Shares potentially resulting in lower NAV.

Securities Lending

The Company may engage in securities lending. Although the Company will receive collateral for the loans and such collateral will be marked-to-market, the Company will be exposed to the risk of loss should the borrower default on its obligations to return the borrowed securities and the collateral be insufficient to reconstitute the portfolio of loaned securities.

LEGAL OPINIONS

The matters referred to under “Eligibility for Investment” and “Canadian Federal Income Tax Considerations” and certain other legal matters relating to the securities offered hereby will be passed upon by Stikeman Elliott LLP, on behalf of the Company, and Davies Ward Phillips & Vineberg LLP on behalf of the Agents.

CUSTODIAN

Pursuant to the Custodian Agreement, the Custodian is responsible for certain aspects of the day-to-day administration of the Company, including executing instruments on direction of the Company, processing redemptions, NAV calculations, net income and net realized capital gains of the Company and maintaining the books and records of the Company.

The address of the Custodian is 200 Bay Street, 24th Floor, North Tower, Toronto, Ontario M5J 2J5.

The Custodian is entitled to receive fees from the Company as described under “Fees and Expenses” and to be reimbursed for all expenses and liabilities which are properly incurred by the Custodian in connection with the activities of the Company.

PROMOTER

The Manager has taken the initiative in organizing the Company and accordingly may be considered to be a “promoter” of the Company within the meaning of the securities legislation of certain provinces of Canada. The Manager will receive fees from the Company and will be entitled to reimbursement of expenses incurred in relation to the Company as described under “Fees and Expenses”.

AUDITORS

The auditors of the Company are PricewaterhouseCoopers LLP, Chartered Accountants, located at Suite 3000, Royal Trust Tower, Toronto-Dominion Centre, Toronto, Ontario M5K 1G8.

REGISTRAR AND TRANSFER AGENT

Pursuant to the Registrar and Transfer Agency Agreement to be signed on or prior to closing, Computershare Investor Services Inc., at its principal offices in Toronto will be appointed the registrar and transfer agent for the Preferred Shares and Class A Shares.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal advisor.

AUDITORS' REPORT

To the Board of Directors of CANADIAN Financials & Utilities Split Corp.

We have audited the statement of financial position of CANADIAN Financials & Utilities Split Corp. (the "Company") as at January 30, 2007. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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, this statement of financial position presents fairly, in all material respects, the financial position of the Company as at January 30, 2007 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
January 30, 2007

(Signed) PRICEWATERHOUSECOOPERS LLP
Chartered Accountants

CANADIAN FINANCIALS & UTILITIES SPLIT CORP.
STATEMENT OF FINANCIAL POSITION
January 30, 2007

	<u>Actual</u>
ASSETS	
Cash	<u>\$100</u>
LIABILITIES	
Preferred Shares	<u>\$—</u>
EQUITY	
Class A Shares	\$—
Class J Shares	\$100
Issue Costs	<u>\$—</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$100</u></u>

Approved by the Board:

By: (Signed) W. NEIL MURDOCH
 Director

By: (Signed) PHILIP K. GOW
 Director

NOTES TO STATEMENT OF FINANCIAL POSITION AS AT JANUARY 30, 2007

1. ORGANIZATION AND SHARE CAPITAL

CANADIAN Financials & Utilities Split Corp. (the “Company”) was incorporated under the laws of the Province of Ontario by Articles of Incorporation dated October 26, 2006.

The Company is authorized to issue an unlimited number of Preferred Shares, Class A Shares and Class J Shares. The Company issued 100 Class J Shares to CANADIAN Financials & Utilities Split Trust for cash consideration of \$100.

2. SIGNIFICANT ACCOUNTING POLICIES

Investments

The Company’s investment in portfolio securities is recorded on a trade date basis and is presented at market value.

Issue Costs

Issue costs incurred in connection with the offering are charged to equity.

3. AGENCY AGREEMENT AND CUSTODIAN

The Company has engaged RBC Dominion Securities Inc., CIBC World Markets Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc., National Bank Financial Inc., TD Securities Inc., Richardson Partners Financial Limited, HSBC Securities (Canada) Inc., Wellington West Capital Inc., Desjardins Securities Inc., Canaccord Capital Corporation and Raymond James Ltd. to offer for sale to the public pursuant to a prospectus dated January 30, 2007 the Preferred Shares and Class A Shares described in Note 1.

The Company has retained RBC Dexia Investor Services Trust (the “Custodian”) under a Custodian Agreement to be dated on or before February 6, 2007 to act as custodian of the assets of the Company and is also responsible for certain aspects of the Company’s day-to-day operations. In consideration for the services provided by the Custodian, the Company will pay a monthly fee to be agreed upon between the Custodian and the Company.

4. MANAGEMENT, LEVERAGE AGENT AND SERVICE FEES

The Company has retained Connor, Clark & Lunn Capital Markets Inc. (the “Manager”) to act as manager under the Management Agreement dated January 30, 2007 and RBC Dominion Securities Inc. (the “Leverage Agent”) to act as its leverage agent under the Leverage Management Agreement to be dated on or before February 6, 2007. Pursuant to such agreements, the Manager and the Leverage Agent are collectively entitled to fees at the annual rate of 0.65% of the NAV of the Company. Such fees are calculated and payable monthly.

The Manager also collects from the Company a Service Fee equal to 0.40% annually of the net asset value of the Class A Shares which it pays to dealers in connection with amounts held by clients of the sales representatives of such dealers.

AUDITORS' CONSENT

We have read the prospectus of CANADIAN Financials & Utilities Split Corp. (the "Company") dated January 30, 2007 relating to the issue and sale of Preferred Shares and Class A Shares of the Company. We have complied with Canadian generally accepted standards for an auditors' involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the board of directors of the Company on the statement of financial position of the Company as at January 30, 2007. Our report is dated January 30, 2007.

Toronto, Ontario
January 30, 2007

(Signed) PRICEWATERHOUSECOOPERS LLP
Chartered Accountants

CERTIFICATE OF THE COMPANY AND THE PROMOTER

Dated: January 30, 2007

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act*, 1988 (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Section 63 of the *Securities Act* (Nova Scotia), by Part 6 of the *Securities Act* (New Brunswick), by Part XIV of *The Securities Act* (Newfoundland and Labrador), by Part II of the *Securities Act* (Prince Edward Island), the *Securities Act* (Yukon), the *Securities Act* (Northwest Territories) and the *Securities Act* (Nunavut) and the respective regulations thereunder. This prospectus does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed within the meaning of the *Securities Act* (Québec) and the regulations thereunder.

CANADIAN FINANCIALS & UTILITIES SPLIT CORP.

By: (Signed) W. NEIL MURDOCH
Chief Executive Officer

By: (Signed) PHILIP K. GOW
Chief Financial Officer

On behalf of the board of directors

By: (Signed) ARTHUR DONNER
Director

By: (Signed) FRANK SANTANGELI
Director

**CONNOR, CLARK & LUNN CAPITAL MARKETS INC.
as Promoter**

By: (Signed) W. NEIL MURDOCH
Chief Executive Officer

CERTIFICATE OF THE AGENTS

Dated: January 30, 2007

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act*, 1988 (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Section 64 of the *Securities Act* (Nova Scotia), by Part 6 of the *Securities Act* (New Brunswick), by Part XIV of *The Securities Act* (Newfoundland and Labrador), by Part II of the *Securities Act* (Prince Edward Island), the *Securities Act* (Yukon), the *Securities Act* (Northwest Territories) and the *Securities Act* (Nunavut) and the respective regulations thereunder. To the best of our knowledge, this prospectus does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed within the meaning of the *Securities Act* (Québec) and the regulations thereunder.

RBC DOMINION SECURITIES INC.

CIBC WORLD MARKETS INC.

SCOTIA CAPITAL INC.

By: (Signed) CHRISTOPHER BEAN

By: (Signed) RONALD W.A.
MITCHELL

By: (Signed) BRIAN D. MCCHESENEY

BMO NESBITT BURNS INC.

By: (Signed) DAVID R. THOMAS

NATIONAL BANK FINANCIAL INC.

TD SECURITIES INC.

By: (Signed) MICHAEL D. SHUH

By: (Signed) CAMERON GOODNOUGH

RICHARDSON PARTNERS FINANCIAL LIMITED

By: (Signed) DAVID FINNBOGASON

HSBC SECURITIES (CANADA) INC.

WELLINGTON WEST CAPITAL INC.

By: (Signed) JAY K. LEWIS

By: (Signed) KEVIN HOOKE

DESJARDINS SECURITIES INC.

CANACCORD CAPITAL CORPORATION

RAYMOND JAMES LTD.

By: (Signed) BETH A. SHAW

By: (Signed) BINA PATEL

By: (Signed) SARA MINATEL



CANADIAN Financials & Utilities Split Corp.