

PROSPECTUS

Initial Public Offering

June 29, 2005



**Connor, Clark & Lunn Real Return Income Fund**  
**\$225,000,000 Maximum (22,500,000 Units)**  
**\$10.00 per Unit**

Connor, Clark & Lunn Real Return Income Fund (the “Fund”), an investment trust established under the laws of the Province of Ontario, proposes to issue (the “Offering”) transferable, redeemable units (the “Units”) of the Fund.

The Fund has the following investment objectives:

- (i) to provide holders of Units (“Unitholders”) with tax efficient monthly cash distributions that will be linked to the rate of inflation; and
- (ii) to preserve and enhance the net asset value (“NAV”) of the Fund.

In order to meet its investment objectives, the Fund intends to obtain exposure to the performance of an actively managed portfolio (the “Portfolio”) at least 80% of which will consist of real return bonds issued by governments with AAA credit ratings. Real return bonds are structured so that the principal and interest they pay is adjusted with reference to inflation. The majority of the real return bonds held in the Portfolio will be U.S. Treasury Inflation Protected Securities (“TIPS”). In order to diversify the Portfolio, improve net asset value stability and increase expected returns, up to 20% of the Portfolio will be invested in a mix of assets which may include mortgage-backed and other asset-backed securities, corporate debt securities, bank loans, emerging markets debt securities and commodity index investments. The combination of these investments is targeted to create a portfolio that has a dollar weighted average credit rating of AA+ on the Portfolio assets. In order to enhance returns, the Manager (as defined below) intends to employ leverage in the Portfolio with an initial targeted debt-to-equity ratio of 1.6:1 (representing a total asset to equity ratio of 2.6:1). Since most of the securities in the Portfolio will be denominated in U.S. dollars, it is intended that at least 90% of its foreign currency exposure will be hedged back to the Canadian dollar at all times. See “The Fund — Investment Strategy”. The Portfolio will be held by the Real Return Trust (“Real Return Trust”), a newly created investment trust established under the laws of the Province of Ontario.

Cash distributions from the Fund are not fixed and may vary from month to month. The Manager will determine and announce at the beginning of each calendar quarter an anticipated monthly distribution amount for each month in that quarter based on prevailing market conditions and the Fund’s estimate of distributable cash flow for the following quarter. The first distribution for the period from closing until August 31, 2005 is expected to be \$0.0654 per Unit and will be paid on September 15, 2005 to Unitholders of record on August 31, 2005. Thereafter, the anticipated monthly distribution until September 30, 2005 is expected to be \$0.0458 per Unit per month (\$0.55 per annum representing a yield of 5.50% per annum on the original subscription price).

Distributions are expected to consist primarily of returns of capital and may include capital gains and are intended to be tax efficient when compared to units of a trust that depends solely on interest, dividend and/or other investment income to pay distributions. See “Canadian Federal Income Tax Considerations”.

**Price: \$10.00 per Unit**

	Price to the Public <sup>(1)</sup>	Agents’ Fees	Net Proceeds to the Fund <sup>(2)</sup>
Per Unit . . . . .	\$10.00	\$0.50	\$9.50
Total Minimum Offering <sup>(3)(4)</sup> . . . . .	\$70,000,000	\$3,500,000	\$66,500,000
Total Maximum Offering <sup>(3)</sup> . . . . .	\$225,000,000	\$11,250,000	\$213,750,000

Notes:

- (1) The Offering price was established by negotiation between the Agents and the Manager.
- (2) Before deducting Offering and organizational expenses estimated at \$680,000 (assuming an offering size of \$100,000,000), subject to a maximum of 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) The Fund has granted the Agents an option (the “Over-Allotment Option”) exercisable for a period of 30 days from the closing of the Offering, to offer up to 15% of the aggregate number of Units issued at the closing of the Offering on the same terms set forth above. This prospectus qualifies the distribution of the Over-Allotment Option and the Units issuable on the exercise thereof. If the Over-Allotment Option is exercised in full, the total

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price to the public under the maximum offering will be \$258,750,000, the Agents' fees will be \$12,937,500 and the net proceeds to the Fund will be \$245,812,500. See "Plan of Distribution".

- (4) There will be no closing unless a minimum of 7,000,000 Units are sold. If subscriptions for a minimum of 7,000,000 Units have not been received within 90 days following the date of issuance of a final receipt for the prospectus qualifying the Offering, the Offering may not continue without the consent of the securities regulatory authorities and those who have subscribed on or before such date.

Western Asset Management Company will act as the Real Return Trust's investment advisor (the "Investment Advisor" or "Western Asset") and will actively manage and make investment decisions with respect to Real Return Trust's assets. Western Asset was named 2004 Fixed-Income Manager of the Year by Morningstar, Inc. Western Asset was established in 1971, is a wholly-owned subsidiary of Legg Mason, Inc., and acts as investment advisor to institutional accounts, such as corporate pension plans, mutual funds and endowment funds. Western Asset, its London-based affiliate, Western Asset Management Company Limited and its Singapore-based affiliate, Legg Mason Asset Management (Asia) Pte Ltd had approximately (U.S.) \$211.4 billion of total assets under management as of March 31, 2005. As of March 31, 2005, Western Asset managed over (U.S.) \$25 billion in inflation-linked securities and over (U.S.) \$8 billion in assets using investment strategies similar to the Real Return Trust's. See "Management of Real Return Trust — The Investment Advisor".

Connor, Clark & Lunn Capital Markets Inc. (the "Manager" or "CC&L") will be responsible for the management and administration of the Fund and the Real Return Trust. CC&L manages over \$1.1 billion in assets and is part of the Connor, Clark & Lunn Financial Group. Connor, Clark & Lunn Financial Group, with approximately \$26 billion in assets under management, offers professional management of financial assets for pension plan sponsors, capital accumulation plans, corporations, foundations, mutual funds and individual investors. See "Management of the Fund — The Manager".

The return to Unitholders will be dependent upon the return of the Portfolio, which will be held by the Real Return Trust, by virtue of one or more forward purchase and sale agreements (collectively, the "Forward Agreement") with Bank of Montreal (the "Counterparty"). The Fund will invest the net proceeds of the Offering in a portfolio of common shares of Canadian public companies (the "Common Share Portfolio"). Under the Forward Agreement, the Fund will be entitled to sell securities in the Common Share Portfolio from time to time to fund monthly distributions, redemptions and repurchases of Units and its operating expenses. The Fund will terminate on July 18, 2015 (the "Termination Date"), whereupon the Forward Agreement will be settled, any non-cash assets will be liquidated and the net assets of the Fund will be distributed to Unitholders. See "Description of the Units — Termination of the Fund".

Commencing in 2006, Units may be redeemed on the last business day of August in each year (the "Redemption Date"), subject to the Fund's right to suspend redemptions, for a redemption price per Unit equal to the NAV per Unit less any costs of funding the redemption. See "Description of the Units — Annual Redemptions".

**There is currently no market through which the Units may be sold.** The Agents may over-allot or effect transactions as described under "Plan of Distribution".

In the opinion of counsel, provided that the Fund qualifies as a mutual fund trust within the meaning of the *Income Tax Act* (Canada) (the "Tax Act"), the Units will be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans. See "Eligibility for Investment".

The Toronto Stock Exchange (the "TSX") has conditionally approved the listing of the Units subject to fulfillment by the Fund of the requirements of the TSX by September 20, 2005.

**See "Risk Factors" for a discussion of certain factors that should be considered by prospective investors in Units. There can be no assurance that the Fund will be able to achieve its monthly distribution and capital preservation objectives. An investment in the Fund is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.**

**The Fund is not a trust company and, accordingly, is not registered under the trust company legislation of any jurisdiction, as it does not carry on business as a trust company. Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under provisions of that Act or any other legislation.**

Scotia Capital Inc., CIBC World Markets Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., TD Securities Inc., HSBC Securities (Canada) Inc., Desjardins Securities Inc., Richardson Partners Financial Limited, Wellington West Capital Inc., Canaccord Capital Corporation, First Associates Investments Inc. and Raymond James Ltd. (collectively, the "Agents") conditionally offer the Units, subject to prior sale, on a best efforts basis, if, as and when issued by the Fund and accepted by the Agents in accordance with the conditions contained in the Agency Agreement described under "Plan of Distribution" and subject to the approval of certain legal matters by Osler, Hoskin & Harcourt LLP and, with respect to certain U.S. federal income tax matters, Shearman & Sterling LLP, on behalf of the Fund and the Manager and, Stikeman Elliott LLP on behalf of the Agents. See "Plan of Distribution".

BMO Nesbitt Burns Inc. is an Agent of the Offering. BMO Nesbitt Burns Inc. is an indirect wholly-owned subsidiary of Bank of Montreal. It is anticipated that Bank of Montreal and/or one or more of its affiliates (including BMO Nesbitt Burns Inc.) will enter into financial services transactions with the Fund or Real Return Trust, including the Forward Agreement, one or more repurchase agreements, and foreign exchange, currency or other derivative transactions. **Consequently, the Fund may be considered a "connected issuer" of BMO Nesbitt Burns Inc. under applicable securities legislation.** See "Plan of Distribution".

Subscriptions will be received for the Units 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 July 18, 2005, but no later than August 31, 2005. Registrations and transfers of Units will be effected only through the book-entry only system administered by The Canadian Depository for Securities Limited. Beneficial owners of Units will not have the right to receive physical certificates evidencing their ownership. See "Description of the Units — Book-Entry Only System".

Real Return Trust has agreed to obtain a receipt for a non-offering prospectus of Real Return Trust from L'Autorité des marchés financiers du Québec and the Manager has agreed to deliver a copy of such prospectus to purchasers in the Province of Québec prior to the purchase of Units by any person in the Province of Québec.

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### FORWARD LOOKING STATEMENTS

Certain statements included in this prospectus constitute forward looking statements, including those identified by the expressions “anticipate”, “believe”, “plan”, “estimate”, “expect”, “intend” and similar expressions to the extent they relate to the Fund, the Manager or the Investment Advisor. The forward looking statements are not historical facts but reflect current expectations regarding future results or events. These forward looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including the matters discussed under “Risk Factors” and in other sections of this prospectus.

## PROSPECTUS SUMMARY

*The following is a summary of the principal features of this offering (the "Offering") and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. All references in this prospectus to "dollars" or "\$" are to Canadian dollars unless otherwise indicated.*

### The Offering

- The Fund:** Connor, Clark & Lunn Real Return Income Fund (the "Fund") is an investment trust established under the laws of the Province of Ontario pursuant to a trust agreement (the "Trust Agreement"), dated as of June 29, 2005, between Connor, Clark & Lunn Capital Markets Inc. (the "Manager" or "CC&L"), as manager of the Fund, and The Royal Trust Company, as trustee of the Fund.
- The Units:** The Offering consists of transferable, redeemable units (the "Units") of the Fund.
- Amount:** Minimum: \$70,000,000 (7,000,000 Units)  
Maximum: \$225,000,000 (22,500,000 Units)
- Price:** \$10.00 per Unit
- Minimum Purchase:** 100 Units (\$1,000)
- Investment Objectives and Strategy:** The Fund will provide holders of its units ("Unitholders") with exposure to the performance of an actively managed portfolio (the "Portfolio") at least 80% of which will consist of real return bonds issued by governments with AAA credit ratings. Real return bonds are structured so that the principal and interest they pay is adjusted with reference to inflation. The majority of the real return bonds held in the Portfolio will be U.S. Treasury Inflation Protected Securities ("TIPS"). In order to diversify the Portfolio, improve net asset value stability and increase expected returns, up to 20% of the Portfolio will be invested in a mix of assets which may include mortgage-backed and other asset-backed securities, corporate debt securities, bank loans, emerging markets debt securities and commodity index investments. The combination of these investments is targeted to create a portfolio that has a dollar weighted average credit rating of AA+ on the Portfolio assets. In order to enhance returns the Manager intends to employ leverage in the Portfolio with an initial targeted debt-to-equity ratio of 1.6:1 (representing a total asset to equity ratio of 2.6:1). See "The Portfolio".
- The Portfolio will be actively managed by Western Asset Management Company (the "Investment Advisor" or "Western Asset"). Western Asset was named 2004 Fixed-Income Manager of the Year by Morningstar, Inc. As of March 31, 2005, Western Asset managed over (U.S.) \$25 billion in inflation-linked securities and over (U.S.) \$8 billion in investment strategies similar to the Real Return Trust's.
- The Fund has the following investment objectives:
- (i) to provide Unitholders with tax efficient monthly cash distributions that will be linked to the rate of inflation; and
  - (ii) to preserve and enhance the net asset value ("NAV") of the Fund.
- In order to meet its investment objectives, the Fund intends to obtain exposure to the performance of the Portfolio held by a newly created investment trust (the "Real Return Trust") by entering into one or more forward purchase and sale agreements (collectively, the "Forward Agreement") with Bank of Montreal

(the “Counterparty”). The Fund will invest the net proceeds of the Offering in a portfolio of common shares of Canadian public companies (the “Common Share Portfolio”). Under the Forward Agreement, the Fund will be entitled to sell securities in the Common Share Portfolio from time to time to fund monthly distributions, redemptions and repurchases of Units and its operating expenses. See “Real Return Trust” and “The Fund’s Investment Strategy — Forward Agreement”.

**Distributions:**

The Fund intends to provide Unitholders with monthly cash distributions. Cash distributions from the Fund are not fixed and may vary from month to month. The Manager will determine and announce at the beginning of each calendar quarter an anticipated monthly distribution amount (the “Anticipated Distribution”) for each month in that quarter based on prevailing market conditions and the Fund’s estimate of distributable cash flow for the following quarter. The first distribution for the period from closing until August 31, 2005 is expected to be \$0.0654 per Unit and will be paid on September 15, 2005 to Unitholders of record on August 31, 2005. Thereafter, the anticipated monthly distribution until September 30, 2005 is expected to be \$0.0458 per Unit per month (\$0.55 per annum representing a yield of 5.50% per annum on the original subscription price).

Distributions are expected to consist primarily of returns of capital and may include capital gains and are intended to be tax efficient when compared to units of a trust that depends solely on interest, dividend and/or other investment income to pay distributions. See “Canadian Federal Income Tax Considerations”.

If, in any year after such distributions, there remains in the Fund additional net income or net realized capital gains, the Fund intends, after December 15 but on or before December 31 of that year, to distribute such portion of the net income and net realized capital gains as is necessary to ensure that the Fund will not be liable for income tax under the *Income Tax Act* (Canada) (the “Tax Act”).

**The Portfolio:**

The Portfolio will consist of the following types of securities, which will be actively managed by Western Asset, on a leveraged basis:

- (i) **Real Return Bonds:** at least 80% of the Portfolio will be invested in real return bonds issued by governments with AAA credit ratings including the United States, the United Kingdom, Canada, France, Sweden and Australia. At least 70% of the Portfolio will be invested in U.S. Treasury Inflation Protected Securities (“TIPS”). Up to 20% of the Portfolio may be invested in AAA-rated real return bonds issued by governments other than the United States; and
- (ii) **Other Portfolio Investments:** in order to diversify the Portfolio, improve net asset value stability and increase expected returns, up to 20% of the Portfolio will be invested in a mix of assets which may include mortgage-backed and other asset-backed securities, corporate debt securities, bank loans, emerging markets debt securities, and commodity index investments. No more than 10% of the Portfolio may be invested in any of these asset classes with the exception of mortgage-backed securities, in respect of which up to 20% of the Portfolio may be invested.

The combination of these investments is targeted to create a portfolio that has a dollar weighted average credit rating of AA+ on the Portfolio assets. In order to enhance returns, the Manager expects to employ leverage in the Portfolio with an

initial targeted debt-to-equity ratio of 1.6:1 (representing a total asset to equity ratio of 2.6:1).

**Real Return Bonds:** Real Return Trust will invest a minimum of 80% of the Portfolio in real return bonds of sovereign issuers. Real return bonds are an active and growing asset class that have been issued by 22 national governments with over (U.S.) \$600 billion in market value worldwide. The largest issuers by market value (measured in U.S. dollars) are the United States at \$300 billion, the United Kingdom at \$181 billion and France at \$109 billion. The Canadian market total is approximately \$24 billion all in maturities of over 15 years. While at least 70% of the Portfolio will be invested in U.S. real return bonds, in order to provide additional diversification to the Portfolio and to take advantage of different real rates of return in various countries, Real Return Trust will also invest in non-U.S. real return bonds.

U.S. real return bonds, or TIPS, were first offered in 1997 in the United States. The overall TIPS market has grown quickly to over (U.S.) \$300 billion. In the first half of 2005, the U.S. Treasury has auctioned (U.S.) \$48 billion of TIPS, double that of recent years. The TIPS market is very liquid with average daily trading volumes of approximately (U.S.) \$8 billion in value.

The Investment Advisor believes that real return bonds have several characteristics that make them an excellent investment, as follows:

*Embedded inflation protection.* Real return bonds are structured to provide a return that is directly tied to inflation, thus preserving the purchasing power of their coupon and principal. Investors in real return bonds receive their yield through a combination of inflation-adjusted coupons and an adjustment of their principal for inflation. The value of the real return bond's principal increases to the extent there has been inflation. The coupon of the real return bond is paid on the inflation-adjusted principal amount.

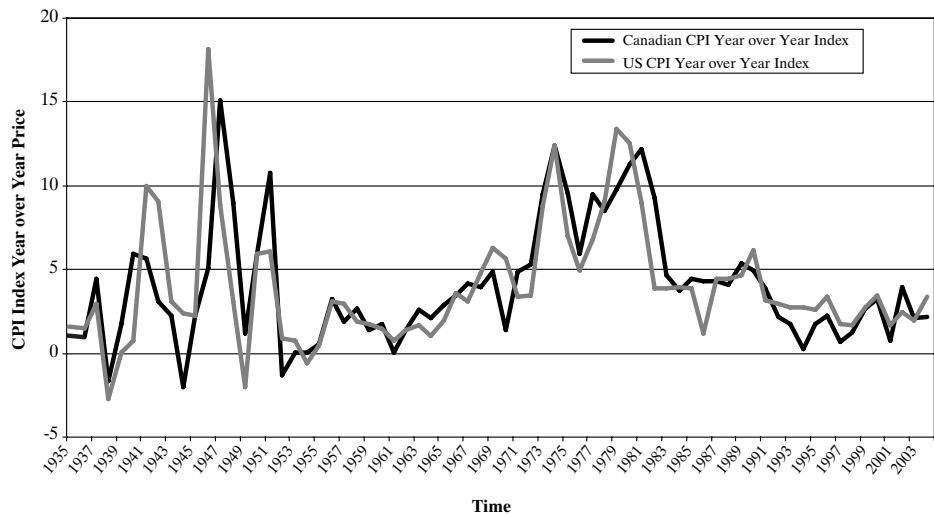
In the case of TIPS, which will constitute a minimum of 70% of the Portfolio, linkage to inflation is achieved by adjusting the principal value of the bonds to reflect changes in the U.S. consumer price index for all urban consumers ("CPI-U"). The CPI-U is calculated monthly and consists of components such as housing, food, transportation and energy. The bond's coupon is paid at a fixed rate calculated with reference to the adjusted principal value. To illustrate, by way of a simplified example, if a bond were issued at a par value of \$100 with a 2% coupon, and during the ensuing year there was 3% inflation, the par value at the end of the year would have moved to \$103 and the coupon rate would be 2% of \$103. The total return for the year would have been just over 5%, with 3% reflecting inflation and a real return of 2%. If inflation had been 6%, the total return would have been over 8% and the par value of the bond would have increased to \$106.

Real return bonds are sensitive to the level of real returns required by investors. To the extent that the required level of real returns increases, the market value of the real return bonds held in the Portfolio will decline.

Even though the majority of the Portfolio will be invested in U.S. real return bonds, as shown in the table below, the correlation between U.S. inflation and Canadian inflation is high. The Manager believes that based on the high historical correlation between U.S. inflation and Canadian inflation, an investment in the Portfolio will also provide a measure of protection against Canadian inflation. The following chart illustrates the positive correlation

between the U.S. inflation rate and the Canadian inflation rate for the period 1935 through 2004.

### US vs Cad CPI Year over Year Index Comparison



*Low correlation to other asset classes.* As described in the following table, U.S. real return bonds, as measured by the Lehman U.S. TIPS Index, have demonstrated low or negative correlation with U.S. and Canadian equities, and a moderate correlation with nominal bonds. As a result, the Investment Advisor believes that real return bonds are an excellent investment option for portfolio diversification.

Correlation of Monthly Returns March 1997 - March 2005				
	Lehman U.S. TIPS	S&P 500 Index	Scotia Capital Universe Overall Total Return*	S&P / TSX Composite Index
Lehman U.S. TIPS . . . . .	1.00			
S&P 500 Index . . . . .	-0.17	1.00		
Scotia Capital Universe Overall Total Return* . . . . .	0.60	-0.13	1.00	
S&P / TSX Composite Index . . .	-0.21	0.78	-0.03	1.00

Source: Western Asset Management, Bloomberg

\* Returns data for Scotia Capital Universe Overall Total Return index begins with December 1998.

*Low volatility.* Real return bonds have historically been less volatile than nominal bonds because their price is affected primarily by real interest rates in contrast to nominal bonds whose price is affected by both real interest rates and inflation expectations.

*Competitive nominal yield.* The nominal yield on real return bonds consists of the real return plus an inflation adjustment. While the level of inflation over the next 10 years cannot be predicted, if the CPI-U continues at the pace of the past 12 months (3.5%), 10-year TIPS will yield approximately 5.1% compared with 4.08% on comparable-maturity U.S. Treasury Securities, providing a competitive nominal yield.

*Deflation protection.* In a deflationary environment, the principal of real return bonds will decline and the dollar amount of coupon payments will fall. In the case of TIPS and some other real return bonds, however, the minimum amount repayable at maturity is the original issue price, thus providing a measure of protection against deflation.

Given these characteristics (embedded inflation protection, low correlation to other asset classes, low volatility, competitive nominal yield and deflation protection), the Investment Advisor believes that real return bonds can be an excellent alternative to nominal debt securities.

**Other Portfolio Investments:** In order to diversify the Portfolio, improve net asset value stability and increase expected returns, the Investment Advisor may invest up to 20% of the Portfolio in a basket of non-real return assets. The basket is intended to enhance the Investment Advisor's ability to adjust Portfolio characteristics such as effective duration, yield curve exposure and credit exposure in response to changing market conditions. Within the 20% maximum, up to 10% of the Portfolio may be invested in any of: bank loans, asset-backed securities, corporate debt securities, emerging markets debt securities, or commodity index investments and up to 20% may be invested in mortgage-backed securities. The Investment Advisor invests in each of the asset classes that may comprise the basket both in its diversified mandates and as stand-alone pools. As at March 31, 2005, Western Asset managed approximately (U.S.) \$49.7 billion in mortgage-backed securities, (U.S.) \$11.6 billion in asset-backed securities, (U.S.) \$57.4 billion in corporate debt securities, (U.S.) \$6.6 billion in emerging markets debt securities, (U.S.) \$389 million in bank loans and (U.S.) \$623 million in commodity index investments.

**Leverage:**

In order to enhance returns the Manager intends to employ leverage in the Portfolio with an initial targeted debt-to-equity ratio of 1.6:1 (representing a total asset to equity ratio of 2.6:1). If at any time the debt-to-equity ratio exceeds 2:1, the Investment Advisor will, in a timely manner, take all commercially reasonable steps as are necessary to reduce Real Return Trust's debt-to-equity ratio to 2:1 or less. See "The Portfolio — Leverage Strategy".

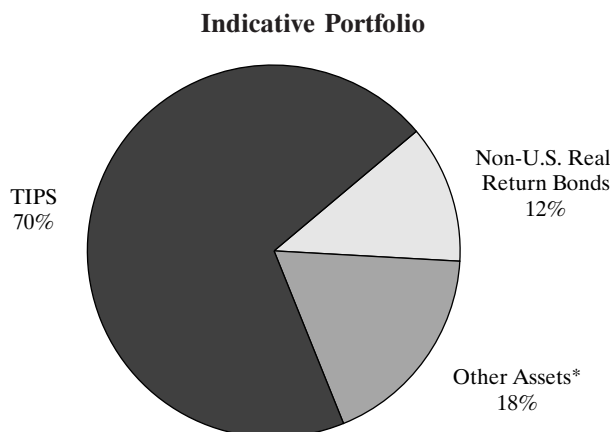
Subsequent to the closing of the Offering, Real Return Trust intends to enter into a master repurchase agreement (the "Repurchase Agreement") with a Canadian chartered bank (the "Repurchase Agreement Counterparty"). The Repurchase Agreement will be structured as a sale and purchase obligation and will operate as a financing under which Real Return Trust will pledge TIPS as collateral to the Repurchase Agreement Counterparty.

Real Return Trust may also enter into a loan facility with a Canadian chartered bank (the "Lender"). The Lender may require Real Return Trust to provide a security interest in some or all of its assets in favour of the Lender to secure such obligations.

Subject to the leverage cap, Real Return Trust may also add leverage to the Portfolio by utilizing a variety of additional strategies, including inherently leveraged financial contracts, and other forms of direct and indirect borrowings (the Repurchase Agreements, the loan facility and other leverage transactions collectively, the "Leverage Transactions"). It is expected that the terms, conditions, interest rates, fees and expenses, as applicable, of and under the Leverage Transactions would be typical for transactions of this nature.

**Indicative Portfolio and Return Calculation:**

The table below sets forth an indicative allocation of assets by the Real Return Trust to the types of securities in which Real Return Trust may invest:



\* Other Assets consist of the following investments in the Portfolio: 10% in bank loans, 5% in emerging market debt securities and 3% in high yield debt securities.

The following example illustrates the net return on a hypothetical equity investment in Real Return Trust assuming the Real Return Trust invests in the Indicative Portfolio described above including all applicable fees and expenses.<sup>(1)</sup>

A.	Weighted-average yield on Portfolio	4.94%
	• TIPS <sup>(2)</sup>	4.98%
	• Non-U.S. Real Return Bonds	3.79%
	• Other Assets	5.57%
B.	Cost of borrowing	3.04%
C.	Net interest rate spread (A minus B)	1.90%
D.	Debt-to-equity ratio	1.6 times
E.	Net interest rate spread on leveraged portion of Portfolio (C times D)	3.04%
F.	Gross return on equity (A plus E)	7.98%
G.	Estimated annual fees and operating expenses <sup>(3)</sup>	2.14%
H.	Net return on equity (F minus G)	5.84%
I.	Net return on investment <sup>(4)</sup>	5.51%

Notes:

- (1) Representative of Real Return Trust's general investment strategy and assuming an offering size of \$100 million. The yield and cost of borrowing on the Indicative Portfolio (as described above) generally reflect the average of the yields on TIPS, Non-U.S. Real Return Bonds and Other Assets, and the average cost of borrowing available in the marketplace on May 25, 2005. The Portfolio yields and borrowing costs experienced by Real Return Trust may differ materially from those presented above. Interest rates applicable to the Portfolio and borrowings under repurchase agreements are sensitive to many factors. See "Risk Factors — Risks Associated with the Use of Leverage".
- (2) Based on a real return of 1.65% as at May 25, 2005. The nominal return will be 1.65% plus the level of inflation reflected in the CPI-U. If the level of inflation is less than 3.33%, then the nominal yield on the TIPS will be lower than 4.98%.
- (3) Includes annual operating expenses estimated at \$140,000 per year, management fees and service fees. See "Fees and Expenses".
- (4) Adjusted for issue expenses. See "Fees and Expenses".

The net interest rate spread that Real Return Trust will earn on its assets and its net return on equity will vary over time.

**Investment Advisor:**

Western Asset acts as Real Return Trust’s investment advisor and will actively manage and make investment decisions with respect to Real Return Trust’s assets. Western Asset was named 2004 Fixed-Income Manager of the Year by Morningstar, Inc. The Investment Advisor was established in 1971, is a wholly-owned subsidiary of Legg Mason, Inc., and acts as investment advisor to institutional accounts, such as corporate pension plans, mutual funds and endowment funds. Total assets under management by Western Asset, its London-based affiliate, Western Asset Management Company Limited and its Singapore-based affiliate, Legg Mason Asset Management (Asia) Pte Ltd were approximately (U.S.) \$211.4 billion as of March 31, 2005. As of March 31, 2005, Western Asset managed (U.S.) over \$25 billion in inflation-linked securities and over (U.S.) \$8 billion in assets using investment strategies similar to the Real Return Trust’s.

**Western Asset Composite Performance:**

The following information demonstrates the dollar-weighted performance achieved by the portfolios within the Western Asset TIPS Full Discretion composite for the periods shown. These portfolios are primarily invested in U.S. TIPS and may also include securities that are similar to those described under “The Portfolio — Other Portfolio Investments”. These portfolios, where allowed by client guidelines, may also employ leverage and utilize derivatives.

<u>Period</u>	<u>Performance<sup>(1)(3)</sup></u>
Year ended December 31, 2000 . . . . .	24.05%
Year ended December 31, 2001 . . . . .	8.39%
Year ended December 31, 2002 . . . . .	16.65%
Year ended December 31, 2003 . . . . .	8.49%
Year ended December 31, 2004 <sup>(2)</sup> . . . . .	8.99%
Year to date — March 31, 2005 <sup>(2)</sup> . . . . .	−0.37%

- (1) Performance based on returns without the use of leverage and before investment advisory fees and expenses.
- (2) Not yet audited.
- (3) Calculated in accordance with AIMR-PPS standards.

**Investment Approach:**

Western Asset is a dedicated fixed income manager and one of the largest real return asset managers in the world. Western Asset’s inflation-linked portfolio investment style is value-oriented and emphasizes the use of multiple strategies, primarily duration management, yield curve positioning and issue selection. The most important factors in Western Asset’s management of real return bond portfolios are: (i) the shape of the real interest rate curve; (ii) the current level of real interest rates; (iii) the expected inflation rate implied by nominal treasury yields; (iv) expectations for monetary policy; and (v) the relative volatility and levels of real yields relative to nominal yields. Based on an analysis of these factors Western Asset develops a series of real return strategies which it employs on a global basis. Some of the most important investment strategies are the following:

*Duration.* Western Asset’s Investment Strategy Group sets a duration target for each of its portfolios based on a comprehensive analysis of domestic and international macroeconomic factors, the general political environment and the mandate for that portfolio. Western Asset believes that interest rates are

primarily determined by the level and direction of inflation and that inflation is primarily a monetary phenomenon. Western Asset's Investment Strategy Group weighs its views against market expectations in determining the appropriate duration for a given portfolio giving consideration to the asset mix, leverage and mandate. Western Asset's objective is not to attempt to time the market, but rather to identify and stay with long-term trends. Western Asset believes that duration management is their primary tool for risk control.

*Term structure.* Western Asset closely monitors shifts in the yield curve in the belief that the relationship between short, intermediate, and long-maturity securities is essential to constructing a portfolio with a long-term investment horizon. Western Asset's Investment Strategy Group analyses the shape of the yield curve, along with projections of Federal Reserve policy, market and inflation expectations, and formulates a yield curve strategy to be implemented by its Portfolio Managers. Western Asset believes its yield curve strategies have been an important source of value added to its portfolio in recent years.

*Sector & subsector allocation.* Western Asset will invest primarily in TIPS. However, should Western Asset determine that certain international inflation-linked issues are liquid enough and have a better risk return profile hedged back into U.S. dollars than TIPS, it would invest in such issues on an opportunistic basis. From a global perspective, Western Asset analyzes the projected economic environment in a wide range of countries to determine how this will affect the market behaviour of the various sectors worldwide. Western Asset will choose securities which it believes will have a strong probability of exceeding U.S. returns.

**Currency Hedging:**

Real Return Trust will hedge against currency risk initially in the amount of the U.S. dollar currency exposure of the Portfolio at inception. To the extent that the net asset value of the Real Return Trust in U.S. dollar terms increases or decreases, the net asset value will be underhedged or overhedged unless the Manager adjusts the hedge. Distributions on the Units will not be hedged and changes in the exchange rates may have a positive or negative effect on such distributions.

**Annual Redemptions:**

Commencing in 2006, Units may be redeemed on the last business day of August in each year (the "Redemption Date"), subject to the Fund's right to suspend redemptions, for a redemption price per Unit equal to the NAV per Unit less any costs of funding the redemption. See "Description of the Units — Annual Redemptions".

**Termination:**

The Fund will terminate on July 18, 2015, whereupon the Forward Agreement will be settled, any non-cash assets of the Fund will be liquidated and the net assets of the Fund will be distributed to Unitholders unless Unitholders determine to continue the Fund by a majority of the votes cast at a meeting of Unitholders called for such purpose. The Manager, may, in its discretion, terminate the Fund without the approval of Unitholders if, in the opinion of the Manager, the Net Asset Value of the Fund is reduced as the result of redemptions or otherwise so that it is no longer economically feasible to continue the Fund and it would be in the best interests of the Unitholders to terminate the Fund. After paying outstanding liabilities, the Fund will distribute its remaining assets *pro rata* to Unitholders. See "Description of the Units — Termination of the Fund".

**Mandatory Market Purchase Program:**

To enhance liquidity and provide market support for the Units, the Fund will have a mandatory market purchase program under which, subject to certain

limitations and exceptions, and in compliance with any applicable regulatory requirements, the Fund will be obligated to purchase Units for cancellation if, at any time following the closing of this Offering, the price at which Units are offered in the market is less than 95% of the latest determined NAV per Unit, up to a maximum in any calendar quarter of 1.25% of the outstanding Units at the beginning of such calendar quarter. In addition, the Fund will have the right, but not the obligation, to purchase Units in the market at its sole discretion, subject to applicable regulatory requirements and limitations. See “Description of the Units — Mandatory Market Purchase Program”.

**Manager:** CC&L, a registered investment counsel and portfolio manager, will be the manager of the Fund and Real Return Trust and will be responsible for the administration of the Fund and Real Return Trust. CC&L manages over \$1.1 billion in assets. The Manager is part of the Connor, Clark & Lunn Financial Group (the “CC&L Group”). The CC&L Group, with approximately \$26 billion in assets under management, offers professional management of financial assets for pension plan sponsors, capital accumulation plans, corporations, foundations, mutual funds and individual investors. See “Management of the Fund — The Manager”.

**Real Return Trust:** Real Return Trust is an investment trust that was established under the laws of the Province of Ontario pursuant to a trust agreement, dated June 29, 2005, between CC&L, as manager of Real Return Trust, and The Royal Trust Company, as trustee.

**Trustee:** The Royal Trust Company is the Trustee of the Fund and Real Return Trust. See “Management of the Fund — The Trustee”.

**Custodian:** The Royal Trust Company will be the custodian of the assets of the Fund and Real Return Trust. See “Management of the Fund — The Custodian” and “Real Return Trust — The Custodian”.

**Eligibility for Investment:** In the opinion of counsel, provided that the Fund qualifies as a mutual fund trust, the Units will be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans or registered education savings plans. See “Eligibility for Investment”.

**Use of Proceeds:** The Fund will use the gross proceeds from the sale of Units as follows:

	<u>Minimum Offering</u>	<u>Maximum Offering</u>
Gross proceeds to the Fund . . . . .	\$ 70,000,000	\$225,000,000
Agents’ Fees . . . . .	\$ 3,500,000	\$ 11,250,000
Estimated expenses of issue . . . . .	<u>\$ 660,000</u>	<u>\$ 780,000</u>
Net proceeds to the Fund . . . . .	<u>\$ 65,840,000</u>	<u>\$212,970,000</u>

Upon the completion of the Offering, the Fund will use the net proceeds of the Offering (including any net proceeds from the exercise of the Over-Allotment Option, as described under “Plan of Distribution”) to acquire the Common Share Portfolio.

### Canadian Federal Income Tax Considerations

A Unitholder will generally be required to include, in computing the Unitholder's income for the year, the amount of the net income, and the taxable portion of the net realized capital gains of the Fund, that is paid or payable to the Unitholder in the year whether in cash or in Units. Distributions by the Fund to a Unitholder in excess of the Unitholder's share of the Fund's net income and net realized capital gains will not result in an inclusion in income but will reduce the adjusted cost base of the Unitholder's Units. To the extent that the adjusted cost base of a Unit held as capital property would otherwise be less than zero, the Unitholder will be deemed to have realized a capital gain equal to the negative amount. A Unitholder who disposes of Units held as capital property (on redemption or otherwise) will realize a capital gain to the extent that the proceeds of disposition exceed the adjusted cost base of Units and any reasonable costs of disposition. See "Canadian Federal Income Tax Considerations". **Each investor should satisfy himself or herself as to the federal and provincial tax consequences of an investment in Units by obtaining advice from his or her tax advisor.**

### United States Federal Income and Withholding Tax

Interest income received by Real Return Trust from TIPS and other U.S. debt securities generally will constitute "portfolio interest" for purposes of the U.S. Internal Revenue Code of 1986, as amended, and, accordingly, generally will be exempt from U.S. federal income and withholding tax. See "United States Federal Income and Withholding Tax Consequences".

The U.S. federal income tax discussion contained in this prospectus was written to support the promotion or marketing of the transactions(s) or matter(s) addressed herein. That discussion was not intended or written to be used, and cannot be used, for the purpose of avoiding U.S. federal income tax penalties. Prospective Unitholders should seek advice based on their particular circumstances from an independent tax advisor.

### Risk Factors

An investment in the Units is subject to certain risk factors, including the following:

- (a) there can be no assurance that the Fund will be able to achieve its monthly distribution and capital preservation objectives or that actual distributions will equal Anticipated Distributions;
- (b) the market value of the real return bonds may be adversely impacted by changes in real interest rates, in that if the required level of real returns increases, the market value of the real return bonds held in the Portfolio will decline;
- (c) risk of non-payment of scheduled interest and/or principal payments by the underlying assets in the Portfolio;
- (d) the market value of the Portfolio and NAV per Unit will vary according to the performance of the Portfolio securities;
- (e) the use of leverage by Real Return Trust to enhance returns subjects Real Return Trust to certain risks, including the following:
  - (i) the likelihood of greater volatility of NAV and market price of the Units than exposure to a comparable portfolio without leverage;
  - (ii) the risk that fluctuations in interest rates on the Real Return Trust's borrowings and short-term debt held by the Real Return Trust may reduce the return to Unitholders or may result in fluctuations in the distributions paid on the Units; and
  - (iii) the effect of leverage in a declining market, which is likely to cause a greater decline in the NAV of the Units than if the Real Return Trust were not leveraged, which may result in a greater decline in the market price of the Units;
- (f) given the Real Return Trust's investment in non-Canadian real return bonds, an investment in the Units may not fully protect against Canadian inflation;

- (g) Units may trade in the market at a premium or a discount to the NAV per Unit and there can be no guarantee that Units will trade at a price equal to the NAV per Unit;
- (h) risks associated with emerging market debt securities, mortgage-backed and other asset-backed securities, high yield debt securities and commodity index investments;
- (i) counterparty risks associated with the Forward Agreement;
- (j) counterparty risks associated with repurchase agreements;
- (k) counterparty risks associated with securities lending;
- (l) the use of interest rate swaps and caps may not insulate Real Return Trust from interest rate risks, and other risks associated with investments in derivative instruments;
- (m) currency risk associated with the portion of the Portfolio that is comprised of securities denominated in U.S. dollars or other foreign currencies;
- (n) reliance on the Manager and the Investment Advisor;
- (o) reliance on key personnel for management of the Portfolio;
- (p) as the Fund is not a mutual fund as defined under Canadian securities laws, the Fund is not subject to the policies and regulations of the securities regulatory authorities that apply to open-end mutual funds;
- (q) possible changes in Canadian income tax laws relating to the treatment of mutual fund trusts;
- (r) possible changes in U.S. income tax laws relating to the availability of the withholding tax exemption applicable to “portfolio interest”;
- (s) the Fund’s lack of operating history and the current absence of a public trading market for the Units;
- (t) if, contrary to the advice of counsel to the Fund and to the Agents or as a result of a change of law, upon physical settlement of the Forward Agreement the character and timing of any gain under the Forward Agreement were other than a capital gain on the sale of common shares thereunder, after-tax returns to Unitholders could be reduced;
- (u) Unitholders will not have statutory rights normally associated with ownership of shares of a corporation; and
- (v) possible changes to Canadian income tax laws, under which deductions that would otherwise reduce the Fund’s taxable income could be denied, with after-tax returns to Unitholders reduced as a result.

See “Risk Factors”.

## SUMMARY OF FEES AND EXPENSES

The following is a summary of the fees and expenses payable by the Fund and Real Return Trust. For further particulars, see “Fees and Expenses”.

<u>Type of Charge</u>	<u>Description</u>
<b>Fees payable to the Agents for selling Units:</b>	\$0.50 per Unit (5% of the Offering price).
<b>Expenses of Issue:</b>	The Fund will, subject to a maximum of 1.5% of the gross proceeds of the Offering, pay the expenses incurred in connection with the Offering of Units by the Fund, which are estimated to be \$680,000 (assuming an offering size of \$100,000,000).
<b>Fees Payable to the Manager and the Investment Advisor:</b>	<p>The Fund shall pay the Manager an annual management fee of 0.30% of the NAV of the Fund, calculated and payable monthly in arrears, plus applicable taxes, plus an amount equal to the Service Fee (defined below) payable to registered dealers. Real Return Trust shall pay the Manager an annual management fee in an amount equal to 0.90% per annum of the net asset value of Real Return Trust, to be calculated and payable monthly in arrears, plus applicable taxes.</p> <p>The Manager, in its capacity as Manager of Real Return Trust, is responsible for payment of the investment management fees of the Investment Advisor.</p>
<b>Operating Expenses:</b>	<p>The Fund will pay to the Counterparty a fee under the Forward Agreement of approximately 0.50% per annum of the net asset value of Real Return Trust.</p> <p>Each of the Fund and Real Return Trust will be responsible for all of its respective expenses incurred in connection with its operation which expenses are estimated to be \$110,000 for the Fund and \$30,000 for Real Return Trust per annum (assuming an offering size of approximately \$100 million). See “Fees and Expenses — Operating Expenses”.</p>
<b>Service Fee:</b>	The Manager will pay to registered dealers a servicing fee (the “Service Fee”) equal to 0.30% annually of the NAV per Unit for each Unit held by clients of the registered dealer (calculated and paid at the end of each calendar quarter). The Service Fee payable to registered dealers in respect of the quarter ending September 30, 2005, shall be paid on a <i>pro rata</i> basis.

## THE FUND

Connor, Clark & Lunn Real Return Income Fund (the “Fund”) is an investment trust established under the laws of the Province of Ontario pursuant to a trust agreement (the “Trust Agreement”), dated as of June 29, 2005, between Connor, Clark & Lunn Capital Markets Inc. (the “Manager” or “CC&L”), as manager of the Fund, and The Royal Trust Company as trustee of the Fund (the “Trustee”). See “Management of the Fund — the Manager” and “Management of the Fund — the Trustee”.

The principal office of the Fund and CC&L is located at 1 First Canadian Place, 100 King Street West, 57<sup>th</sup> Floor, Toronto, Ontario, M5X 1E3.

### Investment Objectives

The Fund has the following investment objectives:

- (i) to provide holders of Units (“Unitholders”) with tax efficient monthly cash distributions that will be linked to the rate of inflation; and
- (ii) to preserve and enhance the net asset value (the “NAV”) of the Fund.

Cash distributions from the Fund are not fixed and may vary from month to month. The Manager will determine and announce at the beginning of each calendar quarter an anticipated monthly distribution amount (the “Anticipated Distribution”) for each month in that quarter based on prevailing market conditions and the Fund’s estimate of distributable cash flow for the following quarter. The first distribution for the period from closing until August 31, 2005 is expected to be \$0.0654 per Unit and will be paid on September 15, 2005 to Unitholders of record on August 31, 2005. Thereafter, the anticipated monthly distribution until September 30, 2005 is expected to be \$0.0458 per Unit per month (\$0.55 per annum representing a yield of 5.50% per annum on the original subscription price).

Distributions are expected to consist primarily of returns of capital and may include capital gains and are intended to be tax efficient when compared to units of a trust that depends solely on interest, dividend and/or other investment income to pay distributions. See “Canadian Federal Income Tax Considerations”.

### Investment Strategy

In order to meet its investment objectives, the Fund intends to obtain exposure to the performance of the Portfolio held by Real Return Trust by virtue of one or more forward purchase and sale agreements (collectively, the “Forward Agreement”) with Bank of Montreal (the “Counterparty”). The Fund will not invest in Real Return Trust. The Fund will invest the net proceeds of the Offering in a portfolio of common shares of Canadian public companies (the “Common Share Portfolio”). Under the Forward Agreement, the Fund will be entitled to sell securities in the Common Share Portfolio from time to time to fund monthly distributions, redemptions and repurchases of Units and its operating expenses in amounts that reflect the monthly yield or value of Real Return Trust as described in more detail under “Forward Agreement” below. As a result, Unitholders’ returns will correlate with the net returns realized by Real Return Trust on its investment in the Portfolio. The long-term debt of the Counterparty or any guarantor will be rated at least “A” by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (“S&P”), or have an equivalent rating from Dominion Bond Rating Service Limited or another “approved credit rating organization” as defined in National Instrument 81-102 *Mutual Funds* (“NI 81-102”).

## THE PORTFOLIO

Real Return Trust will invest, on a leveraged basis (see “The Portfolio — Leverage Strategy”), in a portfolio (the “Portfolio”) in accordance with the following:

- (i) **Real Return Bonds:** at least 80% of the Portfolio will be invested in real return bonds issued by governments with AAA credit ratings including the United States, the United Kingdom, Canada, France, Sweden and Australia. At least 70% of the Portfolio will be invested in U.S. Treasury Inflation Protected Securities (“TIPS”). In addition, up to 20% of the Portfolio may be invested in AAA-rated real return bonds issued by governments other than the United States; and

- (ii) **Other Portfolio Investments:** in order to diversify the Portfolio, improve net asset value stability and increase expected returns, up to 20% of the Portfolio will be invested in a mix of assets which may include mortgage-backed and other asset-backed securities, corporate debt securities, bank loans, emerging markets debt securities, and commodity index investments. No more than 10% of the Portfolio may be invested in any one of these asset classes with the exception of mortgage-backed securities, in respect of which up to 20% of the Portfolio may be invested.

The combination of these investments is targeted to create a portfolio that has a dollar weighted average credit rating of AA+ on the Portfolio assets. In order to enhance returns the Manager intends to employ leverage in the Portfolio with an initial targeted debt-to-equity ratio of 1.6:1 (representing a total asset to equity ratio of 2.6:1).

### **Real Return Bonds**

Real Return Trust will invest a minimum of 80% of the Portfolio in real return bonds of sovereign issuers. Real return bonds are an active and growing asset class that have been issued by 22 national governments with over (U.S.) \$600 billion in market value worldwide. The largest issuers by market value (measured in U.S. dollars) are the United States at \$300 billion, the United Kingdom at \$181 billion and France at \$109 billion. The Canadian market total is approximately \$24 billion all in maturities of over 15 years. While at least 70% of the Portfolio will be invested in U.S. real return bonds, in order to provide additional diversification to the Portfolio and to take advantage of different real rates of return in various countries, Real Return Trust will also invest in non-U.S. real return bonds.

U.S. real return bonds, or TIPS, were first offered in 1997 in the United States. The overall TIPS market has grown quickly to over (U.S.) \$300 billion. In the first half of 2005, the U.S. Treasury has auctioned (U.S.) \$48 billion of TIPS. The TIPS market is very liquid with average daily trading volumes of approximately (U.S.) \$8 billion in value.

The Investment Advisor believes that real return bonds have several characteristics that make them an excellent investment, as follows:

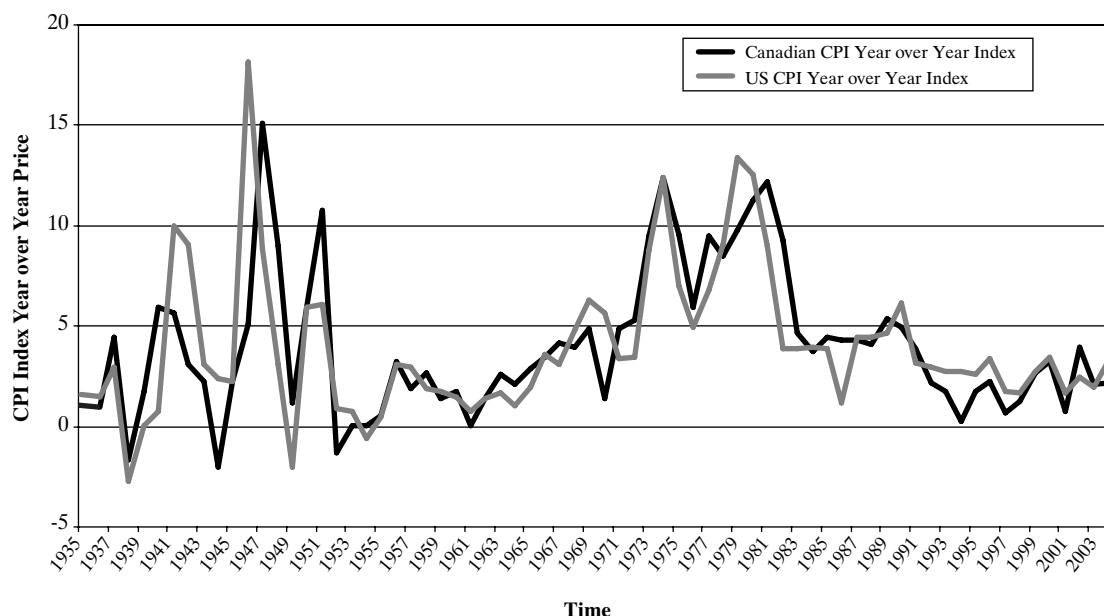
*Embedded inflation protection.* Real return bonds are structured to provide a return that is directly tied to inflation, thus preserving the purchasing power of their coupon and principal. Investors in real return bonds receive their yield through a combination of inflation-adjusted coupons and an adjustment of their principal for inflation. The value of the real return bond's principal increases to the extent there has been inflation. The coupon of the real return bond is paid on the inflation-adjusted principal amount.

In the case of TIPS, which will constitute a minimum of 70% of the Portfolio, linkage to inflation is achieved by adjusting the principal value of the bonds to reflect changes in the U.S. consumer price index for all urban consumers ("CPI-U"). The CPI-U is calculated monthly and consists of components such as housing, food, transportation and energy. The bond's coupon is paid at a fixed rate calculated with reference to the adjusted principal value. To illustrate, by way of a simplified example, if a bond were issued at a par value of \$100 with a 2% coupon, and during the ensuing year there was 3% inflation, the par value at the end of the year would have moved to \$103 and the coupon rate would be 2% of \$103. The total return for the year would have been just over 5%, with 3% reflecting inflation and a real return of 2%. If inflation had been 6%, the total return would have been over 8% and the par value of the bond would have increased to \$106.

Real return bonds are sensitive to the level of real returns required by investors. To the extent that the required level of real returns increases, the market value of the real return bonds held in the Portfolio will decline.

Even though the majority of the Portfolio will be invested in U.S. real return bonds, the correlation between U.S. inflation and Canadian inflation is high. The Manager believes that based on the high historical correlation between U.S. inflation and Canadian inflation, an investment in the Portfolio will also provide a measure of protection against Canadian inflation. The following chart illustrates the positive correlation between the U.S. inflation rate and the Canadian inflation rate for the period 1935 through 2004.

### US vs. Cad CPI Year over Year Index Comparison



*Low correlation to other asset classes.* As described in the following table, U.S. real return bonds, as measured by the Lehman U.S. TIPS Index, have demonstrated low or negative correlation with U.S. and Canadian equities, and a moderate correlation with nominal bonds. As a result, the Investment Advisor believes that real return bonds are an excellent investment option for portfolio diversification.

Correlation of Monthly Returns				
March 1997 - March 2005				
	Lehman U.S. TIPS	S&P 500 Index	Scotia Capital Universe Overall Total Return*	S&P / TSX Composite Index
Lehman U.S. TIPS . . . . .	1.00			
S & P 500 Index . . . . .	-0.17	1.00		
Scotia Capital Universe Overall Total Return* . . . . .	0.60	-0.13	1.00	
S & P / TSX Composite Index . . . . .	-0.21	0.78	-0.03	1.00

Source: Western Asset Management, Bloomberg

\* Returns data for Scotia Capital Universe Overall Total Return index begins with December 1998.

*Low volatility.* Real return bonds have historically been less volatile than nominal bonds because their price is affected primarily by real interest rates in contrast to nominal bonds whose price is affected by both real interest rates and inflation expectations.

*Competitive nominal yield.* The nominal yield on real return bonds consists of the real return plus an inflation adjustment. While the level of inflation over the next 10 years cannot be predicted, if the CPI-U continues at the pace of the past 12 months (3.5%), 10-year TIPS will yield approximately 5.1% compared with 4.08% on comparable-maturity U.S. Treasury Securities, providing a competitive nominal yield.

*Deflation protection.* In a deflationary environment, the principal of real return bonds will decline and the dollar amount of coupon payments will fall. In the case of TIPS and some other real return bonds, however, the minimum amount repayable at maturity is the original issue price, thus providing a measure of protection against deflation.

Given these characteristics (embedded inflation protection, low correlation to other asset classes, low volatility, competitive nominal yield and deflation protection), the Investment Advisor believes that real return bonds can be an excellent alternative to nominal debt securities.

### **Other Portfolio Investments**

In order to diversify the Portfolio, improve net asset value stability and increase expected returns, the Investment Advisor may invest up to 20% of the Portfolio in a basket of non-real return assets. The basket is intended to enhance the Investment Advisor's ability to adjust Portfolio characteristics such as effective duration, yield curve exposure and credit exposure in response to changing market conditions. Within the 20% maximum, up to 10% of the Portfolio may be invested in any of: bank loans, asset-backed securities, corporate debt securities, emerging markets debt securities or commodity index investments, and up to 20% may be invested in mortgage-backed securities. The Investment Advisor invests in each of the asset classes that may comprise the basket both in its diversified mandates and as stand-alone pools.

As at March 31, 2005, Western Asset managed approximately (U.S.) \$49.7 billion in mortgage-backed securities, (U.S.) \$11.6 billion in asset-backed securities, (U.S.) \$57.4 billion in corporate debt securities, (U.S.) \$6.6 billion in emerging markets debt securities, (U.S.) \$389 million in bank loans and (U.S.) \$623 million in commodity index investments.

#### *Mortgage-Backed Securities*

Real Return Trust may invest up to 20% of the Portfolio in mortgage-backed securities. Mortgage-related securities are debt instruments that provide periodic payments consisting of interest and/or principal that are derived from or related to payments of interest and/or principal on underlying mortgages. Additional payments on mortgage-backed securities may be made out of unscheduled prepayments of principal resulting from the sale of the underlying property, refinancing or foreclosure, net of fees or costs that may be incurred.

#### *Asset-Backed Securities*

Real Return Trust may invest up to 10% of the Portfolio in asset-backed securities. Asset-backed securities are debt instruments that are backed by financial assets. Typically these assets consist of receivables other than mortgage loans, such as credit card receivables, auto loans, manufactured-housing contracts and home-equity loans. Asset-backed securities differ from most other kinds of debt instruments in that their creditworthiness (which is at the AAA level for more than 90% of outstanding issues) derives from sources other than the paying ability of the originator of the underlying assets.

#### *Corporate Debt Securities*

Real Return Trust may invest up to 10% of the Portfolio in corporate debt securities, including high yield debt securities. The investment return of corporate debt securities reflects interest on the security and changes in the market value of the security. The market value of a corporate debt securities generally may be expected to rise and fall inversely with interest rates, and may also be affected by the credit rating of the corporation, the corporation's performance, perceptions of the corporation in the marketplace and general market liquidity. The value of the intermediate and longer-term corporate debt securities in which Real Return Trust generally will invest normally fluctuates more in response to changes in interest rates than does the value of shorter-term corporate debt securities. There is a risk that the issuers of corporate debt securities may not be able to meet their obligations on interest or principal payments at the time called for by a debt security.

#### *Bank Loans*

This asset class consists primarily of adjustable rate senior secured loans ("Senior Loans") selected by the Investment Advisor. Senior Loans are made by banks to corporations, partnerships and other business entities (the "Borrowers") that operate in various industries and geographical regions. In general, Senior Loans hold the most senior position in the capital structure of a Borrower, are typically secured with specific collateral, have a claim on the assets and/or shares of the Borrower that is senior to that held by subordinated debtholders and shareholders of the Borrower, and typically obligate the Borrower to abide by more numerous and restrictive covenants than bonds.

### *Emerging Markets Debt Securities*

Emerging market countries, broadly defined, are those making efforts to improve their economy by developing open-market economies. The debt is issued by governments, government-sponsored entities and corporate issuers in these emerging market countries. Emerging markets debt has historically shown a low correlation to U.S. Treasury securities and may provide investors an attractive alternative to further diversify their investment portfolios.

### *Commodity Index Investments*

Commodity exposure, if any, will be comprised of two components: a commodity-based total return swap and a short-term bond portfolio. The swap is used to track the price movements of the Dow Jones-AIG Commodity Total Return index (“DJ-AIG Index”) and the bond portfolio adds value above the returns provided by the swap.

For the swap component, the commodity exposure is obtained by entering into a total return swap in which the Real Return Trust receives the total return of the DJ-AIG Index and pays an amount equal to the return on 3-month U.S. treasury bills. The notional value of the total return swap is equal to the value of the portfolio at inception. Choices are available as to the term of the swap contract.

The foundation for the bond portfolio component of commodity exposure is the Investment Advisor’s extensive and successful track record managing short-duration bond portfolios, dating back to 1988. Its Enhanced Cash Strategy, managed against a 3-month LIBOR benchmark, is used for the bond component of commodity exposure. The team managing these portfolios has been in place since 1991.

### **Leverage Strategy**

The Manager in consultation with the Investment Advisor expects to operate Real Return Trust with an initial debt-to-equity ratio of approximately 1.6:1 (representing a total asset to equity ratio of 2.6:1). If at any time Real Return Trust’s debt-to-equity ratio exceeds 2:1 (the “leverage cap”), the Investment Advisor will, in a timely manner, take all commercially reasonable steps as are necessary to reduce Real Return Trust’s debt-to-equity ratio to 2:1 or less.

Real Return Trust intends to use primarily short term borrowings, in accordance with its investment objectives and restrictions, to finance the acquisition of the Portfolio and to pledge the Portfolio to secure such borrowings. To effect such borrowings in a cost-efficient manner, Real Return Trust intends to enter into a master repurchase agreement with a Canadian chartered bank (the “Repurchase Agreement”) subsequent to the closing of the Offering. A repurchase agreement, although structured as a sale and purchase obligation, operates as a financing (i.e., borrowing) under which Real Return Trust will pledge TIPS as collateral to secure a loan with the Repurchase Agreement counterparty (i.e., lender). Repurchase agreements take the form of a sale of the pledged collateral to a lender at an agreed upon price in return for such lender’s simultaneous agreement to resell the same TIPS back to the borrower at a future date (i.e., the maturity of the borrowing) at a higher price. The difference between the sale and repurchase price is the cost, or interest expense, of borrowing under the repurchase agreement. Real Return Trust will retain beneficial ownership of the TIPS, while the lender will maintain custody of such collateral. At the maturity of a Repurchase Agreement, Real Return Trust will be required to repay the loan and concurrently receive back its pledged collateral from the lender or, with the consent of the lender, Real Return Trust may renew such agreement at the then prevailing financing rate. In order to reduce its exposure to counterparty related risk, Real Return Trust will enter into a Repurchase Agreement only with a financial institution that has a long-term debt rating of, or to the extent applicable, have a holding or parent company with a long-term debt rating of, A or better as determined by S&P. While it is impossible to determine an overall volume figure for the repurchase agreement market, the Manager believes that it is the largest and most liquid market for financing U.S. government securities. In addition, the Manager believes that the use of repurchase agreements is the most cost-efficient method of borrowing for Real Return Trust.

Real Return Trust will use these Repurchase Agreement credit lines to purchase Portfolio securities, with these Portfolio securities being used to secure such borrowings. It is anticipated that over the life of the Portfolio, all of the assets of Real Return Trust may be used as collateral for Repurchase Agreements. The

Investment Advisor uses several risk management models, including proprietary models and models that are widely used by the investment management community. The Investment Advisor has set capital investment guidelines that are incorporated into its portfolio management system. The Portfolio will be monitored daily to ensure that it is operating within the guidelines. Reviews will be conducted at least annually to review the risk-reward profile of the market and the capital investment guidelines. Key measures of risk include, but are not limited to, duration, convexity, prepayments, coupon reset caps, cash-flow and leverage. The Portfolio will be analyzed to determine its performance in a wide range of interest rate scenarios. In addition, price volatility levels will be monitored daily. Trading positions may be adjusted in response to changing risk measures and price volatility levels. In addition, the Investment Advisor will supply reports, evaluations, analyses, statistical data and other information on request to Real Return Trust.

In addition, Real Return Trust may enter into a loan facility with a Canadian chartered bank (the “Lender”). The Lender may require Real Return Trust to provide a security interest in some or all of its assets in favour of the Lender to secure such obligations.

Subject to the leverage cap, Real Return Trust may also add leverage to the Portfolio by utilizing a variety of additional strategies, including inherently leveraged financial contracts, and other forms of direct and indirect borrowings (the Repurchase Agreements, the loan facility and other leverage transactions collectively, the “Leverage Transactions”). It is expected that the terms, conditions, interest rates, fees and expenses, as applicable, of and under the Leverage Transactions would be typical for transactions of this nature.

The use of leverage to enhance returns to Real Return Trust may result in losses or a decrease in net cash distributions from Real Return Trust. It may also require liquidation of Portfolio securities to comply with the terms of the Repurchase Agreements, which may adversely affect the returns earned by Real Return Trust. See “Risk Factors — Risks Associated with the Use of Leverage”.

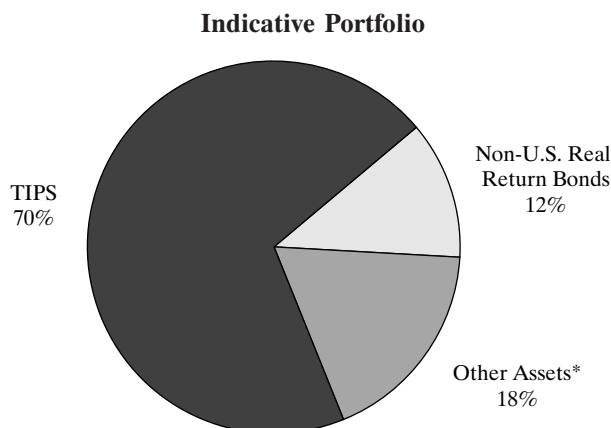
#### *An Example of How Leverage Operates*

The following example is intended to illustrate how Real Return Trust’s strategy to use leverage is put into effect and how this strategy contributes to the returns to Real Return Trust. The example assumes that Real Return Trust issues units for net proceeds of \$100 million. Under the leveraged strategy, Real Return Trust would use \$100 million to purchase Portfolio securities. In addition, Real Return Trust would enter into Repurchase Agreements to borrow funds with which it would purchase additional Portfolio securities. The primary lender under the Repurchase Agreement would loan funds and set borrowing rates for this purpose based on the amount of equity capital in Real Return Trust and the quality of the Portfolio securities. If Real Return Trust wishes to be leveraged at a debt-to-equity ratio of 1.6:1, Real Return Trust would borrow \$160 million to buy approximately \$160 million of Portfolio securities. These additional Portfolio securities would be pledged as collateral against the borrowings. In many instances, the purchase of the Portfolio securities would be made simultaneously with borrowing against those Portfolio securities under the Repurchase Agreements.

In this example, Real Return Trust has assets of \$260 million (\$100 million in Portfolio securities paid for out of the net proceeds of the issuance of units by Real Return Trust and \$160 million in Portfolio securities paid for with borrowings under Repurchase Agreements). The returns to Real Return Trust are comprised of (a) the yield on the \$100 million of Portfolio securities paid for out of the net proceeds; and (b) the interest income earned on the \$160 million of Portfolio securities paid for with borrowings under the Repurchase Agreements, minus the cost of such Repurchase Agreements (i.e., the spread).

## Indicative Portfolio

The table below sets forth an indicative allocation of assets by the Real Return Trust to the types of securities in which Real Return Trust may invest:



\* Other Assets consist of the following investments in the Portfolio: 10% in bank loans, 5% in emerging market debt securities and 3% in high yield debt securities.

## Illustration of Investment Strategy<sup>(1)</sup>

The following example illustrates the net return on a hypothetical equity investment in Real Return Trust assuming the Real Return Trust invests in the Indicative Portfolio described above including all applicable fees and expenses.

A.	Weighted-average yield on Portfolio .....	4.94%
	• TIPS <sup>(2)</sup> .....	4.98%
	• Non-U.S. Real Return Bonds .....	3.79%
	• Other Assets .....	5.57%
B.	Cost of borrowing .....	3.04%
C.	Net interest rate spread (A minus B) .....	1.90%
D.	Debt-to-equity ratio .....	1.6 times
E.	Net interest rate spread on leveraged portion of Portfolio (C times D) .....	3.04%
F.	Gross return on equity (A plus E) .....	7.98%
G.	Estimated annual fees and operating expenses <sup>(3)</sup> .....	2.14%
H.	Net return on equity (F minus G) .....	5.84%
I.	Net return on investment <sup>(4)</sup> .....	5.51%

### Notes:

- (1) Representative of Real Return Trust's general investment strategy and assuming an offering size of \$100 million. The yield and cost of borrowing on the hypothetical Portfolio generally reflect the average of the yields on TIPS, Non-U.S. Real Return Bonds and Other Assets, and the average cost of borrowing available in the marketplace on May 25, 2005. The Portfolio yields and borrowing costs experienced by Real Return Trust may differ materially from those presented above. Interest rates applicable to the Portfolio and borrowings under leverage transactions are sensitive to many factors. See "Risk Factors — Risks Associated with the Use of Leverage".
- (2) Based on a real return of 1.65% as at May 25, 2005. The nominal return will be 1.65% plus the level of inflation reflected in the CPI-U. If the level of inflation is less than 3.33%, then the nominal yield on the TIPS will be lower than 4.98%.
- (3) Includes annual operating expenses estimated at \$140,000 per year, management fees and service fees. See "Fees and Expenses".
- (4) Adjusted for issue expenses. See "Fees and Expenses".

The net interest rate spread that Real Return Trust will earn on its assets and its net return on equity will vary over time.

## Derivatives

Real Return Trust may, but is not required to, use a variety of derivative instruments for risk management purposes only. Generally, derivatives are financial contracts whose value depends upon, or is derived from, the value of an underlying asset, reference rate or index, and often may relate to individual debt instruments, interest rates, commodities and related indexes. Examples of derivative instruments that Real Return Trust may use include options contracts, futures contracts, options on futures contracts, warrants and swaps. Real Return Trust's use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investment directly in securities and other more traditional investments. The use of derivative instruments will be managed by the Investment Advisor subject to the Manager's approval.

## Currency Hedging

Real Return Trust will hedge against currency risk initially in the amount of the U.S. dollar currency exposure of the Portfolio at inception. To the extent that the net asset value of the Real Return Trust in U.S. dollar terms increases or decreases, the net asset value will be underhedged or overhedged unless the Manager adjusts the hedge. Distributions on the Units will not be hedged and changes in the exchange rates may have a positive or negative effect on such distributions.

## WESTERN ASSET MANAGEMENT COMPANY

Western Asset Management Company acts as Real Return Trust's investment advisor (the "Investment Advisor" or "Western Asset") and will actively manage and make investment decisions with respect to Real Return Trust's assets. Western Asset was named 2004 Fixed-Income Manager of the Year by Morningstar, Inc. The Investment Advisor was established in 1971, is a wholly-owned subsidiary of Legg Mason, Inc., and acts as investment advisor to institutional accounts, such as corporate pension plans, mutual funds and endowment funds. Western Asset is located at 385 East Colorado Boulevard, Pasadena, California 91101. Total assets under management by Western Asset, its London-based affiliate, Western Asset Management Company Limited and its Singapore-based affiliate, Legg Mason Asset Management (Asia) Pte Ltd were approximately (U.S.) \$211.4 billion as of March 31, 2005. As of March 31, 2005, Western Asset managed over (U.S.) \$25 billion in inflation-linked securities and over (U.S.) \$8 billion in assets using investment strategies similar to the Real Return Trust's.

The following information demonstrates the dollar-weighted returns achieved by the portfolios within the Western Asset TIPS Full Discretion composite for the periods shown. These portfolios are primarily invested in U.S. TIPS and may also include securities that are similar to those described under "The Portfolio — Other Portfolio Investments". These portfolios, where allowed by client guidelines, may also employ leverage and utilize derivatives.

<u>Period</u>	<u>Performance<sup>(1)(3)</sup></u>
Year ended December 31, 2000	24.05%
Year ended December 31, 2001	8.39%
Year ended December 31, 2002	16.65%
Year ended December 31, 2003	8.49%
Year ended December 31, 2004 <sup>(2)</sup>	8.99%
Year to date — March 31, 2005 <sup>(2)</sup>	-0.37%

(1) Performance based on returns without the use of leverage and before investment advisory fees and expenses.

(2) Not yet audited.

(3) Calculated in accordance with AIMR-PPS standards.

## Investment Advisor's Strategy

Western Asset is a dedicated fixed income manager and one of the largest real return asset managers in the world. Western Asset's inflation-linked portfolio investment style is value-oriented and emphasizes the use of multiple strategies, primarily duration management, yield curve positioning and issue selection. The most important factors in Western Asset's management of real return bond portfolios are: (i) the shape of the real

interest rate curve; (ii) the current level of real interest rates; (iii) the expected inflation rate implied by nominal treasury yields; (iv) expectations for monetary policy; and (v) the relative volatility and levels of real yields relative to nominal yields. Based on an analysis of these factors Western Asset develops a series of real return strategies which it employs on a global basis.

Western Asset's investment strategy for Real Return Trust is to generate net income for distribution on the non-leveraged assets as well as from the spread between the interest income earned on the Portfolio and the cost of the leverage transactions entered into to finance the acquisition of the leveraged portion of the Portfolio, while attempting to limit exposure to interest rate risk and credit risk. Real Return Trust will invest primarily in bonds that, in the opinion of Western Asset, provide current income and, when consistent with current income, may have the potential for capital appreciation.

Some of the most important investment strategies are the following:

*Duration.* Western Asset's Investment Strategy Group sets a duration target for each of its portfolios based on a comprehensive analysis of domestic and international macroeconomic factors, the general political environment and the mandate for that portfolio. Western Asset believes that interest rates are primarily determined by the level and direction of inflation and that inflation is primarily a monetary phenomenon. Western Asset's Investment Strategy Group weighs its views against market expectations in determining the appropriate duration for a given portfolio giving consideration to the asset mix, leverage and mandate. Western Asset's objective is not to attempt to time the market, but rather to identify and stay with long-term trends. Western Asset believes that duration management is their primary tool for risk control.

*Term structure.* Western Asset closely monitors shifts in the yield curve in the belief that the relationship between short, intermediate, and long-maturity securities is essential to constructing a portfolio with a long-term investment horizon. Western Asset's Investment Strategy Group analyses the shape of the yield curve, along with projections of Federal Reserve policy, market and inflation expectations, and formulates a yield curve strategy to be implemented by its Portfolio Managers. Western Asset believes its yield curve strategies have been an important source of value added to its portfolio in recent years.

*Sector & subsector allocation.* Western Asset will invest primarily in TIPS. However, should Western Asset determine that certain international inflation-linked issues are liquid enough and have a better risk return profile hedged back into U.S. dollars than TIPS, it would invest in such issues on an opportunistic basis. From a global perspective, Western Asset analyzes the projected economic environment in a wide range of countries to determine how this will affect the market behaviour of the various sectors worldwide. Western Asset will choose securities which it believes will have a strong probability of exceeding U.S. returns.

## THE FUND'S INVESTMENT STRATEGY

### Forward Agreement

Within 30 days of the closing of the Offering, the Fund will enter into the Forward Agreement. Under the Forward Agreement, the Fund will be entitled to sell securities in the Common Share Portfolio from time to time to fund monthly distributions, redemptions and repurchases of Units and its operating expenses.

Under the terms of the Forward Agreement, the Fund and the Counterparty have agreed that their settlement obligations under the Forward Agreement with respect to the Common Share Portfolio securities will be discharged by physical delivery of the Common Share Portfolio securities by the Fund to the Counterparty against cash payment or, at the election of the Fund, by the making of cash payments between the parties. The amount payable by the Counterparty for physical delivery of the Common Share Portfolio may be more or less than the original aggregate subscription price of the Units. Unless the Fund elects cash settlement of the Forward Agreement, the Counterparty will pay to the Fund on or about the Termination Date, as the purchase price for the Common Share Portfolio, an amount equal to the Canadian dollar equivalent of the redemption proceeds of a corresponding number of units of the Real Return Trust. Prior to the Termination Date, Common Share Portfolio securities or other acceptable securities will be pledged to, and may be held by, the Counterparty as security for the obligations of the Fund under the Forward Agreement.

In order to permit the Fund to fund distributions as well as redemptions of Units by Unitholders from time to time, payment for purchases of Units in the market and expenses of the Fund, the terms of the Forward

Agreement will provide that the Forward Agreement may be partially settled prior to the Termination Date by the Fund by tendering to the Counterparty securities of the Common Share Portfolio or, at the election of the Fund, in cash.

Under the Forward Agreement, the forward purchase price may be reduced for all dividends and distributions, including extraordinary distributions, declared and paid on the Common Share Portfolio securities paid to the Fund as owner of the Common Share Portfolio. If any dividends or distributions are to be received by the Fund, the Forward Agreement will provide that replacement securities as determined by the parties may be substituted for shares in respect of which the dividend or distribution has been declared to preserve the value of the Forward Agreement. Alternatively, the Fund may consider contributing additional securities to the Common Share Portfolio or entering into additional forward, derivative or other transactions. The Forward Agreement will have similar provisions designed to avoid adjustments of the amount to be paid on or about the Termination Date which might otherwise be required if the Fund receives consideration as a consequence of a merger transaction involving any of the securities in the Common Share Portfolio.

The Forward Agreement may be terminated prior to the Termination Date in certain circumstances including: (i) at the option of the Fund in its sole discretion; or (ii) by the Counterparty if it is unable to hedge its position or would incur materially increased costs in hedging its position under the Forward Agreement. The Fund intends to exercise its right to partially settle the Forward Agreement prior to the Termination Date in order to permit the Fund to fund monthly distributions, redemptions and repurchases of Units and its operating expenses from time to time.

The Counterparty may choose to enter into transactions in order to hedge its exposure under the terms of the Forward Agreement to the economic performance of Real Return Trust. There is no assurance that the Counterparty will maintain a hedge or will do so with respect to the full amount or term of the Forward Agreement. The Fund is exposed to the credit risk associated with the Counterparty in respect of the Forward Agreement.

### **Securities Lending**

In order to generate additional returns, the Fund may lend Common Share Portfolio securities to securities borrowers acceptable to the Fund pursuant to the terms of a securities lending agreement between the Fund and any such borrower under which (i) the borrower will pay to the Fund a negotiated securities lending fee and will make compensation payments to the Fund 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 (as defined under “Canadian Federal Income Tax Considerations”); and (iii) the Fund will receive prescribed collateral security which it may pledge as security under the Forward Agreement.

### **Investment Restrictions**

The Fund will use the net proceeds of the Offering to acquire the Common Share Portfolio. In purchasing and holding the Common Share Portfolio, the Fund will be subject to, among other things, the following investment restrictions:

- (i) **Investment in Canadian Securities.** In respect of the Common Share Portfolio, the Fund will restrict its investments to common shares of Canadian public companies that are “Canadian securities” for the purposes of the Tax Act. The Fund will not make or retain investment that would render the Units “foreign property” for purposes of Part XI of the Tax Act. The Fund will not acquire or retain an investment that is “taxable Canadian property” to the Fund for the purposes of the Tax Act.
- (ii) **Concentration.** The Fund will restrict its investments in any one issuer to no more than 10% of its total assets at the time of investment in such issuer.
- (iii) **Mutual Fund Trust.** The Fund will manage its investment and affairs to ensure that it will be a “unit trust” and a “mutual fund trust” for purposes of the Tax Act.
- (iv) **Foreign Investment Entity.** The Fund will not hold securities of any non-resident corporation or trust or other entity if the Fund would be required to mark its investment in such securities to market in accordance with proposed section 94.2 of the Tax Act or to include any significant amounts in income pursuant to proposed section 94.1 or 94.3 of the Tax Act, nor invest in any interest in a non-resident trust other than an “exempt trust” as defined in proposed section 94 of the Tax Act as set forth in the proposed amendments to the Tax Act dealing with foreign investment entities tabled in the House of Commons on October 30, 2003 or amendments to such proposals, provisions as enacted into law or successor provisions thereto.

The Fund may also hold cash, and may invest excess cash in cash equivalents.

## MANAGEMENT OF THE FUND

### **The Manager**

The Manager is a registered investment counsel and portfolio manager, and has over \$1.1 billion in assets under management. 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., Banyan Capital Partners Management Partnership and Tera Inc. The CC&L Group, with approximately \$26 billion in assets under management, 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 of the following investment funds: ROC Pref III Corp., Connor, Clark & Lunn Conservative Income Fund, ROC Pref II Corp., ROC Pref Corp., Connor, Clark & Lunn TIGERS Trust, SNP Health Split Corp., Connor, Clark & Lunn PRINTS Trust and SNP Split Corp.

### **Duties and Services to be Provided by the Manager**

Pursuant to the Trust Agreement, the Manager has exclusive authority to manage the operations and affairs of the Fund, to make all decisions regarding the business of the Fund and to bind the Fund. The Manager may delegate certain of its powers to third parties where, in the discretion of the Manager, it would be in the best interests of the Fund to do so.

The Manager’s duties will include: maintaining accounting records for the Fund; authorizing the payment of operating expenses incurred on behalf of the Fund; preparing financial statements, income tax returns and financial and accounting information as required by the Fund; ensuring that Unitholders are provided with financial statements and other reports as are required from time to time by applicable law; ensuring that the Fund complies with regulatory requirements, including its continuous disclosure requirements under applicable securities laws; preparing the Fund’s reports to Unitholders and to the Canadian securities regulators; providing the custodian with information and reports necessary for the custodian to fulfil its fiduciary responsibilities; administering the retraction and redemption of Units; administering the Forward Agreement including partial or early settlement thereof; arranging for any payment required on or about the Redemption Date; dealing and communicating with Unitholders; and negotiating contracts with third party providers of services, including, but not limited to, custodians, transfer agents, auditors and printers. The Manager will provide office facilities and personnel to carry out these services, together with clerical services which are not furnished by the custodian, valuation agent or transfer agent of the Fund.

The Manager will also be responsible for selecting the Common Share Portfolio held by the Fund. In addition, the Manager will monitor the Fund’s investment strategy to ensure compliance with the Investment Guidelines and that the net proceeds of the Offering are invested as described under “Use of Proceeds”.

The Fund will enter into the custodial agreement and the registrar, transfer agency and distribution agency agreement, all as referred to under “Auditors, Registrar and Transfer Agent”. See “Material Contracts”. Such agreements do not in any way release the Manager from compliance with its obligations to the Fund under the Trust Agreement. The Fund may terminate each of the foregoing agreements upon notice.

### **Accounting and Reporting**

The Fund’s fiscal year will be the calendar year or such other fiscal period permitted under the Tax Act as the Fund elects. The Manager will ensure that the Fund complies with all applicable reporting and administrative requirements.

The Manager will keep adequate books and records reflecting the activities of the Fund. A Unitholder or his or her duly authorized representative will have the right to examine the books and records of the Fund during normal business hours at the offices of the Manager. Notwithstanding the foregoing, subject to applicable law, a Unitholder shall not have access to any information which, in the opinion of the Manager, should be kept confidential in the interests of the Fund.

## 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 and 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
GLENN M. PITTMAN . . . . . Burlington, Ontario	Senior Vice-President	Senior Vice-President, Connor, Clark & Lunn Capital Markets Inc.
JENNIFER L. STEWART . . . . . Toronto, Ontario	Vice-President and Associate Portfolio Manager	Vice-President, Connor, Clark & Lunn Capital Markets Inc.
BONNIE L.M. CHWARTACKI . . . . . Toronto, Ontario	Vice-President Sales, Western Canada	Vice-President Sales, Western Canada, Connor, Clark & Lunn Capital Markets Inc.

**Mr. Murdoch** joined Connor, Clark & Lunn Capital Markets Inc. in late 2003. Prior thereto, Mr. Murdoch was Executive Vice President and Portfolio Manager at AIC Group of Funds. Mr. Murdoch received his Bachelor of Commerce degree from McGill University and a Bachelor of Law degree from the University of Toronto. He completed his formal education with a Master of Management degree from the Kellogg Graduate School of Management and holds the Chartered Financial Analyst designation.

**Mr. Gow** has been a managing director of Brenton Reef Capital Inc. (which was acquired by CC&L Capital Markets Partnership in April 2001) since 1997 and a director and Chief Financial Officer of Connor, Clark & Lunn Capital Markets Inc. since January 2001. He holds a Masters of Business Administration degree and the Chartered Financial Analyst designation.

**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. He holds a B.Bus.Sci. from the University of Cape Town.

**Mr. Pittman** joined Connor, Clark & Lunn Capital Markets Inc. in early 2004. Prior thereto, Mr. Pittman was Vice President and National Sales Manager at AIC Group of Funds. Mr. Pittman received his Bachelor of Commerce degree from Memorial University of Newfoundland and also attended McGill University in Montreal, Quebec.

**Ms. Stewart** has been with Connor, Clark & Lunn Capital Markets Inc. since March 2002 in an Associate Portfolio Manager role. Prior thereto, Ms. Stewart was a Canadian Equities Specialist at Merrill Lynch Canada (now CIBC World Markets Inc.) for two years, with a niche focus on the income trust/structured product area. She holds a Bachelor of Arts degree from the University of Western Ontario and the Chartered Financial Analyst designation.

**Ms. Chwartacki** joined Connor, Clark & Lunn Capital Markets Inc. in the fall of 2004. Prior thereto, Ms. Chwartacki was Regional Vice-President for Western Canada at AIC Group of Funds. Ms. Chwartacki received her Bachelor of Commerce (Honours) degree from the University of Manitoba.

### **Advisory Board**

The Fund will establish an advisory board (the “Advisory Board”) consisting of at least two members appointed by the Manager each of whom will be independent of the Manager, the Investment Advisor, and each of their affiliates, and free from any interest and any business or other relationship which could, or could be reasonably perceived to, materially interfere with the exercise of an Advisory Board member’s judgement. The Advisory Board will provide independent advice to the Manager to assist the Manager in performing its services under the Trust Agreement or Real Return Trust Agreement, as applicable, including with respect to conflicts of interest or potential conflicts of interest (other than those described under “Conflicts of Interest”) or related party transactions identified by the Manager. The members of the Advisory Board are required to act honestly and in good faith in the best interests of the Fund, the Unitholders, and the Real Return Trust, as the case may be, and in connection with that duty will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Manager will report to the Advisory Board on the operation and performance of the Fund and the Real Return Trust, as applicable, on a quarterly basis, including with respect to compliance with applicable investment restrictions and material contracts as amended from time to time.

The Manager will be required under the Trust Agreement and Real Return Trust Agreement, as applicable, to notify each member of the Advisory Board in writing of any conflicts of interest, potential conflicts of interest or related party transactions concerning the Manager, the Fund, or the Real Return Trust, as applicable (other than any such conflicts of interest, potential conflicts of interest or related party transactions relating to matters with respect to which the approval of Unitholders is required under the Trust Agreement or the unitholders under the Real Return Trust Agreement) and to consult with the Advisory Board in respect of any such conflicts of interest, potential conflicts of interest or related party transactions.

In the event of a dispute between the Advisory Board and the Manager with respect to a conflict of interest, potential conflict of interest or related party transaction, upon written direction of the Advisory Board, the Manager will call a meeting of Unitholders or limited partners, as applicable, to consider the conflict of interest, potential conflict of interest or related party transaction.

The Fund’s annual report to Unitholders and the Real Return Trust’s annual report to its unitholders will each include any report by the Advisory Board summarizing any recommendations made by the Advisory Board, including recommendations made and not followed by the Manager, as applicable, and any other matter that the Advisory Board determines to be appropriate in the circumstances.

All fees and expenses of the Advisory Board incurred in connection with its duties with respect to the Fund or Real Return Trust will be paid by the Fund. The Advisory Board will have the authority to retain, at the expense of the Fund, independent counsel or other advisors if the Advisory Board deems it appropriate to do so. See “Fees and Expenses”.

The members of the Advisory Board will be indemnified by the Fund or Real Return Trust, as the case may be, except in cases of wilful misconduct, bad faith, negligence or breach of their standard of care. The Advisory Board members will not be responsible for the investments made by the Fund, or for the performance of the Fund. The members of the Advisory Board may serve in a similar capacity in respect of other entities managed by the Manager.

The following is a brief description of the backgrounds of the proposed members of the Advisory Board:

**Frank Santangeli** has worked in the financial services industry since 1960. Positions he has held include Vice President of Sunlife of 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.

**Selwyn Kletz** is President and Chief Executive Officer of AMIC Canada Limited, a company engaged in the business of investing in Investment Counselling companies. He was previously a Managing Director of CIBC Wood Gundy Securities Inc. where he managed the Global Equity Research Department and served as a member of the Equity Management Committee and the Investment Committee of the merchant banking arm. Earlier in his career, Mr. Kletz founded and managed MYW Financial Management (since incorporated into Scotia Investment Management Limited), Laurim Capital Management Inc. and Laurentian Investment Management (Canada) Inc. Mr. Kletz has more than 30 years of experience in the investment business.

### **Trust Agreement**

Pursuant to the Trust Agreement, the Manager shall exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of Unitholders, 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 Fund upon 60 days' notice to the Unitholders and the Fund or upon such lesser notice period as the Fund 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 Unitholders. If the Manager is in material default of its obligations under the Trust Agreement and such default has not been cured within 20 Business Days (any day on which commercial banks are open for business in Toronto, Ontario hereinafter referred to as a "Business Day") after notice of same has been given to the Manager, the Fund shall give notice thereof to Unitholders and the Unitholders may remove the Manager and appoint a successor manager of the Fund.

The Manager is entitled to fees for its services under the Trust 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 Fund. In addition, the Manager and each of its directors, officers, employees and agents will be indemnified by the Fund 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.

### **The Trustee**

The Royal Trust Company is the trustee of the Fund under the Trust Agreement and, as such, is responsible for certain aspects of the day-to-day administration of the Fund as described in the Trust Agreement, including calculating NAV, net income and net realized capital gains of the Fund and executing instruments on behalf of the Fund.

The Trustee may resign upon 60 days' notice to Unitholders. The Trustee may be removed with the approval of a simple majority vote cast at a meeting of Unitholders called for such purpose or by the Manager, if the Trustee has committed certain events of bankruptcy or insolvency or is in material breach or default of its obligations under the Trust Agreement which breach has not been cured within 30 days after notice thereof has been given to the Trustee. Any such resignation or removal shall become effective only upon the acceptance of appointment by a successor. If the Trustee resigns, its successor may be appointed by the Manager. The successor must be approved by Unitholders if the Trustee is removed by Unitholders. If no successor has been appointed within 60 days, the Trustee or any Unitholder may apply to a court of competent jurisdiction for the appointment of a successor.

The Trust Agreement provides that the Trustee shall not be liable in carrying out its duties under the Trust Agreement except where it is in breach of its obligations under the Trust Agreement or where the Trustee fails to act honestly and in good faith, and in the best interests of Unitholders to the extent required by laws applicable to corporate trustees, or to exercise the degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances. In addition, the Trust Agreement contains other customary provisions limiting the liability of the Trustee and indemnifying the Trustee, or any of its officers, directors, employees or agents, in respect of certain liabilities incurred by it in carrying out its duties.

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

The Trustee is also the trustee of Real Return Trust pursuant to Real Return Trust Agreement described under the “Real Return Trust”. The rights and responsibilities of the Trustee under Real Return Trust Agreement are substantially equivalent to the rights and responsibilities of the Trustee under the Trust Agreement described above.

### **The Custodian**

The Royal Trust Company will act as custodian (the “Fund Custodian”) of the assets of the Fund pursuant to the Trust Agreement. However, the Fund Custodian will not take custody of the Common Share Portfolio which will be pledged by the Fund to the Counterparty under the Forward Agreement.

### **REAL RETURN TRUST**

Real Return Trust is a newly formed investment trust that was established under the laws of the Province of Ontario pursuant to a trust agreement dated June 29, 2005 between CC&L, as manager of Real Return Trust, and The Royal Trust Company, as trustee (the “Real Return Trust Agreement”). See “Management of the Fund — The Trustee”. Real Return Trust will terminate on or about the Termination Date (or such later date upon which the Fund terminates) if not terminated earlier in accordance with its terms.

Real Return Trust will distribute all of its net income and net realized capital gains earned in each fiscal year to ensure that it is not liable for income tax under the Tax Act.

Units of Real Return Trust are redeemable at the demand of its unitholders on a daily basis.

### **Investment Restrictions of Real Return Trust**

The investment activities of Real Return Trust are to be conducted in accordance with, among other things, the following investment restrictions:

- a) **Investments.** Real Return Trust will invest in the Portfolio. Real Return Trust may also hold cash or cash equivalents.
- b) **Composition of Portfolio.**
  - (i) at least 80% of the Portfolio will be invested in real return bonds issued by governments with AAA credit ratings including the United States, the United Kingdom, Canada, France, Sweden and Australia;
  - (ii) at least 70% of the Portfolio will be invested in TIPS; and
  - (iii) no more than 20% of the Portfolio may be invested in mortgage-backed securities, asset-backed securities, corporate debt securities, bank loans, emerging markets debt securities, and commodity index investments and no more than 10% of the Portfolio may be invested in each such asset class, except for mortgage-backed securities in respect of which no more than 20% of the Portfolio may be invested.
- c) **Leverage.** Real Return Trust’s debt to equity ratio may not exceed 2:1. If at any time Real Return Trust’s debt-to-equity ratio exceeds 2:1, the Investment Advisor will, in a timely manner, take all commercially reasonable steps as are necessary to reduce Real Return Trust’s debt-to-equity ratio to 2:1 or less.
- d) **Weighted Average Credit Rating.** The dollar weighted average credit rating on the Portfolio assets will not fall below AA-.
- e) **Foreign Issuers.** Real Return Trust will not invest in securities of any foreign issuer if distributions to Real Return Trust from such issuer would be subject to any foreign taxes or foreign withholding taxes

that would not be recoverable by it or in respect of which it would not be entitled to receive a compensatory “gross-up” payment.

## **MANAGEMENT OF REAL RETURN TRUST**

### **The Manager**

Connor, Clark & Lunn Capital Markets Inc. will perform management services for Real Return Trust pursuant to Real Return Trust Agreement. The Manager will be entitled to receive fees as compensation for management services rendered to Real Return Trust. See “Fees and Expenses”. The Manager is responsible for payment of the investment management fees of the Investment Advisor related to Real Return Trust.

### **Duties and Services to be Provided by the Manager**

The Manager has exclusive authority to manage the operations and affairs of Real Return Trust, to make all decisions regarding the business of Real Return Trust and to bind Real Return Trust. The Manager may delegate certain of its powers to third parties where, in the discretion of the Manager, it would be in the best interests of Real Return Trust to do so.

### **Accounting and Reporting**

Real Return Trust’s fiscal year will be the calendar year or such other fiscal period permitted under the Tax Act as Real Return Trust elects. The Manager will ensure that Real Return Trust complies with all applicable reporting and administrative requirements.

The Manager will keep adequate books and records reflecting the activities of Real Return Trust. A unitholder or his or her duly authorized representative will have the right to examine the books and records of the Real Return Trust during normal business hours at the offices of the Manager. Notwithstanding the foregoing, subject to applicable law, a unitholder shall not have access to any information which, in the opinion of the Manager, should be kept confidential in the interests of the Fund.

### **Advisory Board**

Real Return Trust will establish an advisory board (the “Advisory Board”) consisting of at least two members appointed by the Manager each of whom will be independent of the Manager, the Investment Advisor, and each of their affiliates, and free from any interest and any business or other relationship which could, or could be reasonably perceived to, materially interfere with the exercise of an Advisory Board member’s judgement. The Advisory Board will provide independent advice to the Manager to assist them in performing their services under the Trust Agreement or Real Return Trust Agreement, as applicable, including with respect to conflicts of interest or potential conflicts of interest (other than those described under “Conflicts of Interest”) or related party transactions identified by the Manager. The members of the Advisory Board are required to act honestly and in good faith in the best interests of the Fund, the Unitholders, and the Real Return Trust, as the case may be, and in connection with that duty will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Manager will report to the Advisory Board on the operation and performance of the Fund and the Real Return Trust, as applicable, on a quarterly basis, including with respect to compliance with applicable investment restrictions and material contracts as amended from time to time.

The Manager will be required under the Trust Agreement and Real Return Trust Agreement, as applicable, to notify each member of the Advisory Board in writing of any conflicts of interest, potential conflicts of interest or related party transactions concerning the Manager, the Fund, or the Real Return Trust, as applicable (other than any such conflicts of interest, potential conflicts of interest or related party transactions relating to matters with respect to which the approval of Unitholders is required under the Trust Agreement or the unitholders under the Real Return Trust Agreement) and to consult with the Advisory Board in respect of any such conflicts of interest, potential conflicts of interest or related party transactions.

In the event of a dispute between the Advisory Board and the Manager with respect to a conflict of interest, potential conflict of interest or related party transaction, upon written direction of the Advisory Board, the Manager will call a meeting of Unitholders or limited partners, as applicable, to consider the conflict of interest, potential conflict of interest or related party transaction.

The Fund’s annual report to Unitholders and the Real Return Trust’s annual report to its unitholders will each include any report by the Advisory Board summarizing any recommendations made by the Advisory Board, including recommendations made and not followed by the Manager, as applicable, and any other matter that the Advisory Board determines to be appropriate in the circumstances.

All fees and expenses of the Advisory Board incurred in connection with its duties with respect to the Fund or Real Return Trust will be paid by the Fund. The Advisory Board will have the authority to retain, at the expense of the Fund, independent counsel or other advisors if the Advisory Board deems it appropriate to do so. See “Fees and Expenses”.

The members of the Advisory Board will be indemnified by the Fund or Real Return Trust, as the case may be, except in cases of wilful misconduct, bad faith, negligence or breach of their standard of care. The Advisory Board members will not be responsible for the investments made by the Fund, or for the performance of the Fund. The members of the Advisory Board may serve in a similar capacity in respect of other entities managed by the Manager.

The initial members of the Advisory Board will be Frank Santangeli and Selwyn Kletz as described under “Management of the Fund — Advisory Board”.

**Management of Real Return Trust**

The Manager will continue as manager of Real Return Trust until terminated in accordance with the terms of Real Return Trust Agreement. The terms of its appointment will be the same as the Trust Agreement. See “Management of the Fund — Trust Agreement”.

**The Investment Advisor**

Western Asset will act as Investment Advisor to Real Return Trust pursuant to an agreement (the “Investment Advisory Agreement”) to be entered into between the Investment Advisor, the Manager and Real Return Trust on or prior to the closing of the Offering.

The name and municipality of residence of each of the Investment Advisor’s investment management personnel involved with Real Return Trust and their principal occupations are as follows:

<u>Name and Municipality</u>	<u>Position with the Investment Advisor</u>	<u>Principal Occupation</u>
S. KENNETH LEECH . . . . . Pasadena, California	Chief Investment Officer	Chief Investment Officer, Western Asset
PETER STUTZ . . . . . Manhattan Beach, California	Portfolio Manager/Research Analyst	Portfolio Manager/Research Analyst, Western Asset
STEPHEN A. WALSH . . . . . Sierra Madre, California	Deputy Chief Investment Officer	Deputy Chief Investment Officer, Western Asset
PAUL WYNN . . . . . London, United Kingdom	Portfolio Manager/Research Analyst	Portfolio Manager/Research Analyst, Western Asset Management Company Limited

**Mr. Leech** joined Western Asset in 1990 and currently holds the title of Chief Investment Officer. Prior thereto, Mr. Leech was a Portfolio Manager at Greenwich Capital Markets. Mr. Leech received his Bachelor of Arts, Bachelor of Science and Masters in Business Administration degrees from the Wharton School of the University of Pennsylvania.

**Mr. Stutz** has been a Portfolio Manager/Research Analyst of Western Asset since 1997. Prior thereto, Mr. Stutz was a Portfolio Manager at Pacific Telesis Group. He received his Bachelor of Science degree from the University of Illinois and Masters of Business Administration degree from the University of Chicago. Mr. Stutz also holds the Chartered Financial Analyst designation.

**Mr. Walsh** joined Western Asset in 1991 and currently holds the title of Deputy Chief Investment Officer. Prior thereto, Mr. Walsh was a Portfolio Manager at Security Pacific Investment Managers, Inc. He received his Bachelor of Science degree from the University of Colorado at Boulder.

**Mr. Wynn** has been a Portfolio Manager/Research Analyst of Western Asset Management Company Limited since 1992. Prior thereto, he was a Portfolio Manager at Morgan Grenfell. Mr. Wynn received his Bachelor of Science degree from Keele University.

### **Services to be Provided by the Investment Advisor**

Decisions as to the active management of, and the evaluation of risks associated with, the Portfolio held by Real Return Trust will be made by the Investment Advisor in accordance with and subject to the Investment Advisory Agreement and the investment restrictions applicable to Real Return Trust.

The Manager and the Investment Advisor are responsible for ensuring that the provisions of the Investment Advisory Agreement are consistent with the investment guidelines and restrictions relating to Real Return Trust and that such investment guidelines and restrictions comply with applicable Canadian federal and provincial laws. The Manager and the Investment Advisor are also responsible for analyzing all provisions of applicable Canadian federal and provincial laws and interpretation of such laws (and any changes thereto) referred to in the investment guidelines and restrictions relating to Real Return Trust. See “Investment Restrictions of Real Return Trust”.

### **Investment Advisory Agreement**

The services to be provided by the Investment Advisor pursuant to the Investment Advisory Agreement include making investment decisions for Real Return Trust with regard to the Portfolio, including advising Real Return Trust on negotiating credit terms, in accordance with the investment objectives, strategies and restrictions of Real Return Trust.

Under the Investment Advisory Agreement, the Investment Advisor is required to discharge its duties in a manner that is fair and reasonable to Real Return Trust, to act honestly and in good faith with a view to the best interests of CC&L, Real Return Trust and the unitholders of Real Return Trust and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in like circumstances (“Standard of Care”). The Investment Advisory Agreement provides that the Investment Advisor shall not be liable in any way for any default, failure or defect in any of the securities of Real Return Trust if it has satisfied the duties and standard of care, diligence and skill set forth above.

CC&L has responsibility for the investment advice given or the portfolio management services provided by the Investment Advisor and will be responsible to Real Return Trust and the Fund for any loss that arises out of the failure of the Investment Advisor to discharge its obligations under the Investment Advisory Agreement in accordance with the standard of care, diligence and skill set forth above. There may be difficulty in enforcing any legal rights against the Investment Advisor because it is resident outside Canada and all or a substantial portion of its assets are situated outside Canada.

The Investment Advisory Agreement may be terminated by the Manager and Real Return Trust or by the Investment Advisor by providing the other parties to the Investment Advisory Agreement with no less than 60 days’ written notice of such termination.

The Investment Advisor is entitled to fees for its services under the Investment Advisory Agreement, which will be paid by the Manager out of its management fee, and will be reimbursed for all reasonable costs and expenses incurred by the Investment Advisor on behalf of Real Return Trust. In addition, the Investment Advisor and each of its directors, officers, employees and agents will be indemnified by Real Return Trust 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 Investment Advisor or any of its officers, directors,

employees or agents in the exercise of its duties as Investment Advisor, if they do not result from the Investment Advisor's wilful misconduct, bad faith, negligence or breach of its Standard of Care as set forth in the Investment Advisory Agreement.

### **The Custodian**

The Royal Trust Company will act as custodian (the "Real Return Trust Custodian") of the assets of Real Return Trust pursuant to the Real Return Trust Agreement to be entered into prior to the closing of the Offering between Real Return Trust and Real Return Trust Custodian. Real Return Trust Custodian, or an affiliate of Real Return Trust Custodian, will also carry out certain aspects of the day-to-day administration of Real Return Trust, including calculating NAV, net income and net realized capital gains of Real Return Trust and maintaining the books and records of Real Return Trust.

### **DESCRIPTION OF THE UNITS**

The Fund is authorized to issue an unlimited number of transferable, redeemable units of one class (the "Units"), each of which represents an equal, undivided interest in the net assets of the Fund.

On December 16, 2004, the *Trust Beneficiaries' Liability Act, 2004* (Ontario) came into force. This statute provides that holders of units of a trust are not, as beneficiaries, liable for any act, default, obligation or liability of the trust if, when the act or default occurs or the liability arises: (i) the trust is a reporting issuer under the *Securities Act* (Ontario); and (ii) the trust is governed by the laws of Ontario. The Fund will be a reporting issuer under the *Securities Act* (Ontario) prior to the closing of the Offering and the Fund is governed by the laws of Ontario by virtue of the provisions of the Trust Agreement.

All Units have equal rights and privileges. Each whole Unit is entitled to one vote at all meetings of Unitholders and is entitled to participate equally with respect to any and all distributions made by the Fund, including distributions of net income and net realized capital gains, and distributions upon the termination of the Fund. Units are issued only as fully paid and are non-assessable.

The Trust Agreement provides that the Fund will not issue additional Units following completion of the Offering, except: (i) for net proceeds per Unit of not less than 100% of NAV per Unit, (ii) by way of Unit distributions, or (iii) with the approval of Unitholders by Extraordinary Resolution (as defined under "Acts Requiring Unitholder Approval"). Immediately after a *pro rata* distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold, after the consolidation, the same number of Units as the Unitholder held before the non-cash distribution. Subject to the foregoing, the Fund may also allot and issue other securities at such time or times, and in such manner, as the Trustee in its sole discretion shall determine.

Subject to applicable law, the Fund may at any time or times purchase Units for cancellation at prices not exceeding the most recently calculated NAV per Unit.

### **Monthly Distributions**

The Fund intends to provide Unitholders with tax efficient monthly cash distributions. Cash distributions from the Fund are not fixed and may vary from month to month. The Manager will determine and announce at the beginning of each calendar quarter an Anticipated Distribution for each month in that quarter based on prevailing market conditions and the Fund's estimate of distributable cash flow for the following quarter. The first distribution for the period from closing until August 31, 2005 is expected to be \$0.0654 per Unit and will be paid on September 15, 2005 to Unitholders of record on August 31, 2005. Thereafter, the anticipated monthly distribution until September 30, 2005 is expected to be \$0.0458 per Unit per month (\$0.55 per annum representing a yield of 5.50% per annum on the original subscription price).

Distributions are expected to consist primarily of returns of capital and may include capital gains and are intended to be tax efficient when compared to units of a trust that depends solely on interest, dividend and/or other investment income to pay distributions. See "Canadian Federal Income Tax Considerations".

The Fund may also, at the discretion of the Manager, make special distributions in cash or in Units at any time in addition to monthly cash distributions. To the extent that the Fund makes a distribution in Units, the

number of outstanding Units of the Fund will be consolidated such that each Unitholder of the Fund will hold after the consolidation the same number of Units of the Fund as it held before the distribution of additional Units (except in the case of non-resident Unitholders, where withholding is required).

Monthly cash distributions over the life of the Fund will be derived from the proceeds of disposition of Common Share Portfolio securities. These proceeds will be received by the Fund from the Counterparty under the Forward Agreement.

Cash distributions will be payable to Unitholders of record at 5:00 p.m. (Toronto time) on the last business day of each month. All cash distributions will be paid by cheque to The Canadian Depository for Securities Limited (“CDS”) or paid in such other manner as may be agreed to by the Trustee. See “Description of the Units — Book-Based System”.

If, in any year after such distributions, there remains in the Fund additional net income or net realized capital gains, the Fund intends, after December 15 but on or before December 31 of that year, to distribute such portion of the net income and net realized capital gains as is necessary to ensure that the Fund will not be liable for income tax under the Tax Act.

Each Unitholder will be mailed annually, no later than March 31<sup>st</sup>, information necessary to enable such Unitholder to complete an income tax return with respect to amounts paid or payable by the Fund in respect of the preceding taxation year of the Fund. See “Canadian Federal Income Tax Considerations”.

## **Annual Redemptions**

### *Annual Redemption of Units*

Commencing in 2006, Units may be redeemed on the last business day of August in each year (the “Redemption Date”), subject to the Fund’s right to suspend redemptions, for a redemption price per Unit equal to the NAV per Unit less any costs of funding the redemption and the Unitholder will receive payment on or before the fifteenth day following the Redemption Date. Notice of Redemption must be provided between July 15<sup>th</sup> and the 20<sup>th</sup> Business Day before the Redemption Date.

Redeeming Unitholders will be entitled to receive a redemption price per Unit equal to the NAV per Unit determined as of the Redemption Date, less any expenses incurred by the Fund to partially settle the Forward Agreement in order to fund such redemption. Any unpaid distribution payable on or before the Redemption Date in respect of Units tendered for redemption on such Redemption Date will also be paid on the same day as the redemption proceeds are paid. The NAV per Unit will vary depending on a number of market factors, including interest rates, volatility in the equity markets and changes in the amount that the Fund is entitled to receive under the Forward Agreement as a result of changes in the market price of the Portfolio securities. If the Fund is extended beyond the Termination Date, Unitholders may redeem their Units on the Termination Date for the NAV as of that date. See “Termination of the Fund” below.

### *Exercise of Redemption Right*

An owner of Units who desires to exercise redemption privileges thereunder must do so by causing a participant in The Canadian Depository for Securities Limited a (“CDS Participant”) to deliver to CDS (at its office in the City of Toronto) on behalf of the owner a written notice (the “Redemption Notice”) of the owner’s intention to redeem Units. An owner who desires to redeem Units should ensure that the CDS Participant is provided with notice of his or her intention to exercise his or her redemption privilege sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver notice to CDS and so as to permit CDS to deliver notice to the registrar and transfer agent of the Fund in advance of the required time. The form of Redemption Notice will be available from a CDS Participant or the registrar and transfer agent. Any expense associated with the preparation and delivery of Redemption Notices will be for the account of the owner exercising the redemption privilege.

Except as provided under “Suspension of Redemptions”, by causing a CDS Participant to deliver to CDS a notice of the owner’s intention to redeem Units, an owner shall be deemed to have irrevocably surrendered his or her Units for redemption and appointed such CDS Participant to act as his or her exclusive settlement agent

with respect to the exercise of the redemption privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

Any Redemption Notice delivered by a CDS Participant regarding an owner's intent to redeem 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 redemption 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 redemption 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 Fund to the CDS Participant or to the owner.

### *Suspension of Redemptions*

The Manager may direct the Trustee to suspend the redemption of Units or payment of redemption proceeds: (i) during any period when normal trading is suspended on a stock exchange or other market on which securities owned by the Fund are listed and traded, if these securities represent more than 50% by value or underlying market exposure of the total assets of the Fund, without allowance for liabilities, and if these securities are not traded on any other exchange that represents a reasonably practical alternative for the Fund; or (ii) with the prior permission of the securities regulatory authorities where required, for any period not exceeding 30 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Fund or which impair the ability of the Trustee to determine the value of the assets of the Fund. The suspension may apply to all requests for redemption 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 Unitholders making such requests shall be advised by the Manager of the suspension and that the redemption will be effected at a price determined on the first business day following the termination of the suspension. All such Unitholders shall have and shall be advised that they have the right to withdraw their requests for redemption. 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 Fund, any declaration of suspension made by the Manager shall be conclusive.

### **Mandatory Market Purchase Program**

To enhance liquidity and to provide market support for the Units, the Fund will have a mandatory market purchase program under which the Fund will, subject to the following exceptions and to compliance with any applicable regulatory requirements, be obligated to purchase any Units offered in the market at the then prevailing market price if, at any time, the price at which Units are then offered for sale and the most recent closing price of the Units on the TSX are each less than 95% of the latest determined NAV per Unit. The maximum number of Units to be purchased by the Fund pursuant to such mandatory market purchase program in any calendar quarter will be 1.25% of the number of Units outstanding at the beginning of such calendar quarter. In addition, the Fund will not be obligated to make such purchases, if among other things, (i) the Manager reasonably believes that the Fund would be required to make an additional distribution in respect of the year to Unitholders of record on the last Valuation Date (as defined under "Calculation of Net Asset Value") in December of a year in order that the Fund will generally not be liable to pay income tax after the making of such purchase, (ii) in the opinion of the Manager, the Fund lacks the cash, debt capacity or other resources to make such purchases, or (iii) in the opinion of the Manager, such purchases would adversely affect the ongoing activities of the Fund or the remaining Unitholders. In addition, the Fund will have the right (but not the obligation), exercisable in its sole discretion, at any time to purchase additional Units in the market, subject to any applicable regulatory requirements and limitations.

### **Calculation of Net Asset Value**

The NAV on a particular date will be equal to the aggregate value of the assets of the Fund less the aggregate value of the liabilities of the Fund, including any income, net realized capital gains or other amounts payable to Unitholders on or before such date expressed in Canadian dollars at the applicable exchange rate on such date. The NAV per Unit on any day will be obtained by dividing the NAV of the Fund on such day by the number of Units then outstanding.

The NAV per Unit will be calculated as of 4:00 p.m. (Toronto time) on the following days (each, a “Valuation Date”): (i) each Friday during the year (or, if a Friday is not a business day, then on the business day following such Friday); and (ii) each Redemption Date. If the Fund elects to have a December 15 year-end for tax purposes as permitted by the Tax Act, the NAV per Unit will also be calculated on December 15.

The total assets of the Fund consist of the aggregate value of the assets of the Common Share Portfolio and the Forward Agreement. Since the value of the Fund’s rights and obligations under the Forward Agreement is determined by reference to the value of units of the Real Return Trust, the Fund’s NAV is linked to the value of Real Return Trust. The total assets of Real Return Trust consist of the aggregate value of the Portfolio.

In determining the NAV of the Fund, at any time the Trustee will take into account the following:

- (a) the value of the Forward Agreement shall be the gain or loss with respect thereto that would be realized if, at that time, the Forward Agreement were to be closed out in accordance with its terms;
- (b) the value of any cash on hand or on deposit, prepaid expenses, cash distributions declared and interest accrued and not yet received, shall be deemed to be the face amount thereof, unless the Trustee determines that any such asset is not worth the face amount thereof, in which event the value thereof shall be deemed to be such value as the Trustee determines to be the fair value thereof;
- (c) TIPS, bonds, debentures, mortgage-backed securities, asset-backed securities, emerging market debt securities, bank loans and commodity index investments shall be valued by taking the bid price at 4:00 p.m. on the Valuation Date;
- (d) any security that is listed or dealt in on a stock exchange shall be valued at the sale price applicable to a board lot last reported at 4:00 p.m. on the Valuation Date on the principal stock exchange on which such security is traded, or, if no sale price is available at that time, the last closing price quoted for the security, but if bid and ask quotes are available, at the average of the latest bid and asked price rather than at the last quoted closing price;
- (e) any security purchased, the purchase price of which has not been paid, shall be included for valuation purposes as a security held, and the purchase price, including brokers’ commissions and other expenses, shall be treated as a liability of the Fund;
- (f) any security sold but not delivered, pending receipt of the proceeds, shall be valued at the net sale price;
- (g) Restricted Securities (as that term is defined in NI 81-102) shall be valued at the lesser of:
  - (i) the value thereof based on reported quotations of such Restricted Securities in common use; and
  - (ii) that percentage of the market value of securities of the class or series of a class of which the Restricted Securities form part that are not Restricted Securities equal to the percentage that the Fund’s acquisition cost was of the market value of such securities at the time of acquisition, but taking into account, if appropriate, the amount of time remaining until the Restricted Securities will cease to be Restricted Securities;
- (h) if any date on which NAV is determined is not a U.S. business day, then the property of the Fund will be valued as if such date was the preceding U.S. business day;
- (i) if any investment cannot be valued under the foregoing rules or if the foregoing rules are at any time considered by the Trustee to be inappropriate under the circumstances, then notwithstanding the foregoing rules, the Trustee shall make such valuation as it considers fair and reasonable;
- (j) the value of all assets of the Fund quoted or valued in terms of foreign currency, the value of all funds on deposit and contractual obligations payable to the Fund in foreign currency and the value of all liabilities and contractual obligations payable by the Fund in foreign currency shall be determined using the applicable rate of exchange current at, or as nearly as practicable to, the applicable date on which NAV is determined; and

- (k) estimated operating expenses of the Fund shall be accrued to the date as of which the NAV is being determined.

### **Meetings of Unitholders**

A meeting of Unitholders may be convened by the Manager by a written requisition specifying the purpose of the meeting and must be convened if requisitioned by Unitholders holding not less than 10% of the Units then outstanding by a written requisition specifying the purpose of the meeting. Not less than 21 days' and not more than 50 days' notice will be given of any meeting of Unitholders. The quorum at any such meeting is two Unitholders present in person or by proxy except for the purpose of any meeting called to consider item (d) below under "Acts Requiring Unitholder Approval" in which case the quorum shall be Unitholders holding 15% of the outstanding Units. If no quorum is present at such meeting when called, the meeting, if called on the requisition of Unitholders or for the purpose of item (d), will be terminated and otherwise will be adjourned for not less than 10 days and at the adjourned meeting the Unitholders then present in person or represented by proxy will form the necessary quorum. At any meeting of Unitholders, each Unitholder will be entitled to one vote for each whole Unit registered in the Unitholder's name.

The Fund does not intend to hold annual meetings of Unitholders.

### **Acts Requiring Unitholder Approval**

Pursuant to the Trust Agreement, the following matters require the approval of Unitholders by resolution passed by at least 66 $\frac{2}{3}$ % of the votes cast at a meeting called and held for such purpose (an "Extraordinary Resolution"), other than items (c), (f) and (j), which require approval of Unitholders by a simple majority vote at a meeting called and held for such purpose (an "Ordinary Resolution"):

- (a) a change in the investment objectives of the Fund as described under "The Fund — Investment Objectives";
- (b) a change in the investment restrictions of the Fund as described under "The Fund's Investment Strategy — Investment Restrictions";
- (c) any change in the basis of calculating fees or other expenses that are charged to the Fund which could result in an increase in charges to the Fund other than a fee or expense charged by a person or company that is at arm's length to the Fund;
- (d) a change of the manager of the Fund, other than a change resulting in an affiliate of such person assuming such position;
- (e) except as described under "Management of the Fund — The Trustee", a change in the trustee of the Fund, other than a change resulting in an affiliate of such person assuming such position;
- (f) a change in the auditors of the Fund;
- (g) a reorganization with, or transfer of assets to, a mutual fund trust, if
  - (i) the Fund ceases to continue after the reorganization or transfer of assets; and
  - (ii) the transaction results in Unitholders becoming securityholders in the mutual fund trust;
- (h) a reorganization with, or acquisition of assets of, a mutual fund trust, if
  - (i) the Fund continues after the reorganization or acquisition of assets;
  - (ii) the transaction results in the securityholders of the mutual fund trust becoming unitholders of the Fund; and
  - (iii) the transaction would be a significant change to the Fund;
- (i) a termination of the Fund prior to the Termination Date;
- (j) an extension of the Fund beyond the Termination Date as described under "Termination of the Fund";

- (k) an amendment, modification or variation in the provisions or rights attaching to the Units;
- (l) the issuance of additional Units, other than: (i) for net proceeds equal to or greater than 100% of the NAV per Unit; or (ii) by way of Unit distribution; and
- (m) a reduction in the frequency of calculating the NAV per Unit.

The Manager may, without the approval of or notice to Unitholders, amend the Trust Agreement for certain limited purposes specified therein, including to:

- (a) remove any conflicts or other inconsistencies which may exist between any terms of the Trust Agreement and any provisions of any law or regulation applicable to or affecting the Fund;
- (b) make any change or correction in the Trust Agreement which is of a typographical nature or is required to cure or correct any ambiguity or defective or inconsistent provision, clerical omission, mistake or manifest error contained therein;
- (c) bring the Trust Agreement into conformity with applicable laws, rules and policies of securities regulatory authorities or with current practice within the securities industry, provided that any such amendment does not adversely affect the rights, privileges or interests of the Unitholders;
- (d) maintain, or permit the Trustee to take such steps as may be desirable or necessary to maintain, the status of the Fund as a “mutual fund trust” for the purposes of the Tax Act; or
- (e) provide added protection to Unitholders.

Except for changes to the Trust Agreement which require the approval of Unitholders or changes described above which do not require approval of or prior notice to Unitholders, the Trust Agreement may be amended from time to time by CC&L upon not less than 30 days’ prior written notice to Unitholders.

#### **Financial Reporting to Unitholders**

The Fund will deliver to Unitholders quarterly unaudited and annual audited financial statements of the Fund and Real Return Trust. The financial statements for Real Return Trust shall include a statement of investments held by Real Return Trust at the date of the financial statements.

#### **Termination of the Fund**

The Fund will terminate on July 18, 2015 (the “Termination Date”), whereupon the Forward Agreement will be settled, any non-cash assets of the Fund will be liquidated, and the net assets of the Fund will be distributed to Unitholders unless Unitholders determine to continue the Fund by a majority of the votes cast at a meeting of Unitholders called for such purpose. Immediately prior to the Termination Date, the Trustee will, to the extent possible, convert the assets of the Fund to cash and after paying or making adequate provision for all of the Fund’s liabilities, distribute the net assets of the Fund to Unitholders as soon as practicable after the Termination Date. If a meeting of Unitholders is to be held to extend the Fund, it must be held at least 30 days prior to the then scheduled Termination Date. The Manager, may, in its discretion, terminate the Fund without the approval of Unitholders if, in the opinion of the Manager, the Net Asset Value of the Fund is reduced as the result of redemptions or otherwise so that it is no longer economically feasible to continue the Fund and it would be in the best interests of the Unitholders to terminate the Fund. After paying outstanding liabilities, the Fund will distribute its remaining assets *pro rata* to Unitholders.

If the term of the Fund is extended beyond the Termination Date, Unitholders may redeem their Units on the Termination Date for the NAV per Unit as of that date.

#### **Non-Resident Unitholders**

At no time may (i) non-residents of Canada, (ii) partnerships that are not Canadian partnerships or (iii) a combination of non-residents of Canada and such partnerships (all as defined in the Tax Act) be the beneficial owners of a majority of the Units, and the Trustee shall inform the registrar and transfer agent of the Fund of this restriction. The Trustee may require declarations as to the jurisdictions in which a beneficial owner of Units

is resident and, if a partnership, its status as a Canadian partnership. If the Trustee becomes aware, as a result of requiring such declarations as to beneficial ownership or otherwise, that the beneficial owners of 40% or more of the Units then outstanding are, or may be, non-residents and/or partnerships that are not Canadian partnerships, or that such a situation is imminent, the Trustee may make a public announcement thereof. If the Trustee determines that more than 40% of the Units are beneficially held by non-residents and/or partnerships that are not Canadian partnerships, the Trustee may send a notice to such non-resident Unitholders and partnerships, chosen in inverse order to the order of acquisition or in such manner as the Trustee may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not less than 30 days. If the Unitholders receiving such notice have not sold the specified number of Units or provided the Trustee with satisfactory evidence that they are not non-residents or partnerships other than Canadian partnerships within such period, the Trustee may on behalf of such Unitholders sell such Units and, in the interim, shall suspend the voting and distribution rights attached to such Units. Upon such sale, the affected holders shall cease to be beneficial holders of Units and their rights shall be limited to receiving the net proceeds of sale of such Units.

Notwithstanding the foregoing, the Trustee may determine not to take any of the actions described above if the Trustee has been advised by legal counsel that the failure to take any of such actions would not adversely impact the status of the Fund as a mutual fund trust for purposes of the Tax Act or, alternatively, may take such other action or actions as may be necessary to maintain the status of the Fund as a mutual fund trust for purposes of the Tax Act.

### **Book-Entry Only System**

Registration of interests in, and transfers of, the Units will be made only through the book-entry only system of CDS. On the date of closing of the Offering, the Fund will deliver to CDS certificates evidencing the aggregate Units subscribed for under the Offering. Units must be purchased, transferred and surrendered for retraction only through a CDS Participant. All rights of an owner of Units 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 Units. Upon purchase of any Units, the owner will receive only the customary confirmation. References in this prospectus to a holder of Units means, unless the context otherwise requires, the owner of the beneficial interest in such Units.

Real Return Trust, the Fund, the Manager, the Investment Advisor and the Agents will not have any liability for (i) records maintained by CDS relating to the beneficial interests in the Units or the book entry accounts maintained by CDS; (ii) maintaining, supervising or reviewing any records relating to such beneficial ownership interests; or (iii) any advice or representation made or given by CDS and made or given with respect to the rules and regulations of CDS or any action taken by CDS or at the direction of the CDS Participants.

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

The Fund has the option to terminate registration of the Units through the book-entry only system in which case certificates for Units in fully registered form will be issued to beneficial owners of such Units or to their nominees.

### **CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

In the opinion of Osler, Hoskin & Harcourt LLP, counsel to the Fund, and Stikeman Elliott LLP, counsel to the Agents, the following is, as of the date hereof, a general summary of the principal Canadian federal income tax considerations applicable under the *Income Tax Act* (Canada) (the "Tax Act") to an individual (other than a trust) who acquires Units pursuant to the Offering and who, for the purposes of the Tax Act, is resident in Canada, deals at arm's length and is not affiliated with the Fund and the Agents and holds the Units as capital property.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder (the "Regulations"), all specific proposals to amend the Tax Act and the Regulations publicly announced by or

on behalf of the Minister of Finance prior to the date hereof (the “Proposed Amendments”), and counsel’s understanding of the current administrative practices of the Canada Revenue Agency. On October 31, 2003, the Department of Finance released, for public consultation, draft proposed amendments (the “October 31 Proposals”) to the Tax Act that would require, for taxation years commencing after 2004, that there be a reasonable expectation of profit from a business or property for a taxpayer to realize a loss from such business or property, and that make it clear that profit in this sense does not include capital gains. The October 31 Proposals could, among other things, adversely affect a Unitholder who has borrowed funds in connection with the acquisition of Units. On February 23, 2005 the Department of Finance announced that it has developed an alternative proposal to the October 31 Proposals which it intends, at an early opportunity, to release for comment. This summary does not address any special considerations for such Unitholders and any such Unitholders should consult their own tax advisors. This summary assumes that the Proposed Amendments will be enacted as proposed, although there is no certainty of this. Except for the Proposed Amendments, this summary does not take into account or anticipate any changes in the law, whether by way of legislative, governmental or judicial decision or action, nor does it take into account provincial, territorial or foreign tax legislation or considerations. A separate summary is provided below in respect of “United States Federal Income and Withholding Tax Consequences.”

This summary assumes that the Fund will qualify as a “mutual fund trust” as defined in the Tax Act on completion of the Offering, and will thereafter continuously qualify as a mutual fund trust. In order to so qualify, the Fund must comply on a continuous basis with certain investment criteria referred to under “The Fund’s Investment Strategy — Investment Restrictions” and certain minimum distribution requirements relating to the Units. In addition, the Fund may not reasonably at any time be considered to be established or maintained primarily for the benefit of non-resident persons. This summary also assumes that the Fund will elect to be deemed to be a mutual fund trust from the date it is established. If the Fund were not to qualify at all times as a mutual fund trust, the income tax considerations described below would be different in certain material respects.

This summary is not exhaustive of all possible Canadian federal income tax considerations applicable in respect of an investment in Units. Moreover, the income and other tax consequences of acquiring, holding or disposing of Units will vary according to the status of the Unitholder, the province or provinces in which the Unitholder resides or carries on business and, generally, the Unitholder’s own particular circumstances. Accordingly, the following description of income tax considerations is of a general nature only and is not intended to constitute advice to any particular Unitholder. **Prospective Unitholders should consult their own tax advisors with respect to the income tax consequences of investing in Units, based upon the prospective Unitholder’s particular circumstances.**

#### **Taxation of the Fund**

The Fund will be subject to tax under Part I of the Tax Act for a taxation year on the amount of its income for the year computed for tax purposes (including net taxable capital gains) less the portion thereof paid or payable to Unitholders in the year that it claims as a deduction. Provided the net income and net realized capital gains of the Fund are paid or payable to Unitholders in each year, and provided the Fund deducts, in computing its income, the full amount available for deduction in each year, the Fund will not generally be liable for income tax under Part I of the Tax Act.

The Fund will not realize any income, gain or loss as a result of entering into the Forward Agreement. Provided that the Common Share Portfolio consists of Canadian securities within the meaning of the Tax Act and the Fund elects in accordance with the Tax Act to have each of its Canadian securities treated as capital property, gains or losses realized by the Fund on the sale of Canadian securities will be taxed as capital gains or capital losses. If the obligations of the Fund and the Counterparty under the Forward Agreement are settled by making cash payments, a payment made or received by the Fund may be treated as an income outlay or receipt, as applicable. If the Fund delivers securities in the Common Share Portfolio to the Counterparty in satisfaction of its obligations under the Forward Agreement and receives a payment from the Counterparty equal to the price stipulated in the Forward Agreement, the Fund will realize capital gains (or capital losses) equal to the amount by which such purchase price (less reasonable costs of disposition) exceeds (or is less than) the aggregate adjusted cost base of such securities.

In computing its income for tax purposes, the Fund may deduct reasonable administrative, interest and other expenses incurred by it for the purpose of earning income and generally may deduct over a five-year period the expenses incurred by it to issue Units pursuant to the Offering and not reimbursed.

Under the October 31 Proposals, for taxation years beginning after 2004 a taxpayer will be considered to have a loss from a business or property for a taxation year only if, in that year, it is reasonable to assume that the taxpayer will realize a cumulative profit from the business or property during the time that the taxpayer has carried on, and can reasonably be expected to carry on, the business or has held, and can reasonably be expected to hold, the property. Profit, for this purpose, does not include capital gains or capital losses. The October 31 Proposals, if enacted in the form proposed, could limit losses of the Fund from a particular source that is a business or property or deductions that would otherwise reduce the Fund's taxable income, including management fees and issue expenses, in taxation years commencing after 2004, thereby reducing after tax returns to Unitholders. On February 23, 2005 the Department of Finance announced that it has developed an alternative proposal to the October 31 Proposals which it intends, at an early opportunity, to release for comment.

## **Taxation of Unitholders**

### *Holding Units*

A Unitholder will generally be required to include in computing income for a taxation year, the Unitholder's share of the net income of the Fund (including the taxable portion of any net capital gains) that is paid or becomes payable to the Unitholder in the taxation year, whether or not reinvested in additional Units. Where an appropriate designation is made by the Fund, the portion of (a) any net taxable capital gains of the Fund, and (b) any taxable dividends received by the Fund on shares of taxable Canadian corporations, that is paid or becomes payable to a Unitholder will retain its character in the hands of the Unitholder. Thus, where an amount is designated to a Unitholder as taxable dividends from taxable Canadian corporations, the normal gross-up and dividend tax credit rules will apply.

The non-taxable portion of any net capital gains of the Fund that is paid or becomes payable to a Unitholder in a year will not be included in computing the Unitholder's income for the year and will not reduce the adjusted cost base of the Units of the Unitholder. Any other amount in excess of a Unitholder's share of the net income of the Fund (including any net capital gains) for a taxation year that is paid or becomes payable to the Unitholder in the year will not generally be included in computing the Unitholder's income for the year. However, the payment by the Fund of such excess amount will reduce the adjusted cost base of the Units of the Unitholder. To the extent that the adjusted cost base of a Unit would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Unitholder from the disposition of the Unit and the Unitholder's adjusted cost base will be increased by the amount of such deemed capital gain.

### *Disposition of Units*

Upon a disposition or deemed disposition by a Unitholder of a Unit, whether on a sale, redemption, repurchase or otherwise, a capital gain (or capital loss) will be realized by the Unitholder to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Unit to the Unitholder immediately before the disposition. For the purposes of determining the adjusted cost base to a Unitholder of Units, the cost of any newly acquired Units will be averaged with the adjusted cost base of all Units owned by the Unitholder as capital property immediately before such acquisition. The cost of additional Units acquired as a distribution of income (including capital gains) will be equal to the amount of the distribution. A consolidation of Units following a distribution paid in the form of additional Units will not be regarded as a disposition of Units and will not affect the aggregate adjusted cost base to a Unitholder of Units.

Generally, one-half of any capital gain (a "taxable capital gain") realized by a Unitholder in a taxation year must be included in computing the income of the Unitholder for the year and one-half of any capital loss (an "allowable capital loss") realized by a Unitholder in a taxation year may be deducted from taxable capital gains realized by the Unitholder in the year in accordance with the rules in the Tax Act. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in

any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year, against taxable capital gains realized in those years, including taxable capital gains realized on the disposition of Units or amounts designated by the Fund to a Unitholder as taxable capital gains.

#### *Alternative Minimum Tax*

Amounts designated as taxable dividends from taxable Canadian corporations and net realized capital gains paid or payable to a Unitholder by the Fund or realized on the disposition of Units may give rise to a liability for alternative minimum tax.

### **UNITED STATES FEDERAL INCOME AND WITHHOLDING TAX CONSEQUENCES**

The following is a general summary, based on the opinion of Shearman & Sterling LLP, special U.S. tax counsel to the Fund, of the principal U.S. federal income and withholding tax consequences to Real Return Trust of the purchase, ownership and disposition of TIPS and the other debt securities comprising the Portfolio (the "Portfolio Securities"). This summary is based upon the Internal Revenue Code of 1986, as amended (the "Code"), the Treasury and other regulations promulgated thereunder, applicable judicial decisions, and administrative rulings and pronouncements of the Internal Revenue Service, all as of the date hereof and all of which are subject to change, possibly with retroactive effect, or different interpretation.

This summary is also based on the following assumptions: (a) Real Return Trust will be the beneficial owner of the Portfolio Securities (and any income derived therefrom) for U.S. federal income tax purposes; (b) no election will be made to treat Real Return Trust as other than an association taxable as a corporation for U.S. federal income tax purposes; (c) Real Return Trust will not have an office or other fixed place of business in the United States; (d) the Manager, the Custodian and the Trustee will each comply with the terms of, and Real Return Trust will otherwise operate in accordance with and subject to the limitations contained in, the Real Return Trust Agreement; (e) the Investment Advisor will manage the Portfolio in accordance with and subject to the Investment Advisory Agreement and the investment restrictions applicable to Real Return Trust; and (f) the Portfolio Securities will all be properly characterized as indebtedness for U.S. federal income tax purposes. **If one or more of the preceding assumptions proves to be inaccurate, the conclusions reached in this summary may not apply and Real Return Trust may experience material adverse U.S. federal income tax consequences.**

This summary is for general information only and does not address all of the potential U.S. tax consequences to Real Return Trust of the purchase, ownership and disposition of the assets in the Portfolio. In particular, it does not address the taxation of assets other than the Portfolio Securities (such as bank loans and commodity index investments) or the treatment of Real Return Trust under state or local tax law. This summary also does not address any U.S. tax consequences to any prospective purchaser of Units, and it does not constitute legal or tax advice to any prospective purchaser of Units. Prospective Unitholders should consult their own tax advisors as to the U.S. tax consequences of investing in Units, based upon the prospective Unitholder's own particular circumstances.

In general, unless a treaty exemption applies, a non-U.S. corporation that is engaged in the conduct of a trade or business within the United States will be subject to U.S. federal income tax with respect to any income that is effectively connected with such U.S. trade or business in the same manner as if it were a U.S. person (and may also be subject to a branch profits tax of 30 percent (or applicable lower tax treaty rate) with respect to its effectively connected earnings and profits for a taxable year). A non-U.S. corporation will not, however, be considered to be engaged in the conduct of a trade or business within the United States if (i) its activities within the United States are limited to investing and trading in stocks or securities for its own account; and (ii) it is not a dealer in stocks or securities.

In the present case, while Real Return Trust likely will constitute a non-U.S. corporation for U.S. federal income tax purposes it will not be a dealer in stocks or securities and will otherwise operate in a manner such that it will not be considered to be engaged in a trade or business within the United States. Accordingly, income earned by Real Return Trust with respect to the Portfolio Securities (including any gain recognized on the sale, exchange or other taxable disposition of the Portfolio Securities) generally will not be subject to U.S. federal income tax on a net basis.

Although a non-U.S. corporation that is not engaged in the conduct of a trade or business within the United States generally will not be subject to U.S. federal income tax on a net basis, it will be subject to U.S. federal income tax at a rate of 30 percent on its gross fixed or determinable annual or periodical income (which includes interest income) from sources within the United States unless (i) a statutory exemption applies; or (ii) the tax is reduced or eliminated under an applicable income tax treaty. A statutory exemption from such tax is available in the case of interest that qualifies as “portfolio interest”.

As a general matter, interest on an obligation will qualify as portfolio interest provided that (i) the U.S. person otherwise required to deduct and withhold U.S. tax in respect of such interest receives a statement certifying, among other things, that the beneficial owner of the obligation is not a U.S. person; and (ii) certain other statutory requirements are satisfied. Under the terms of the Real Return Trust Agreement, Real Return Trust may invest in U.S. securities only if such securities meet the statutory requirements necessary for the interest thereon to qualify as portfolio interest and Real Return Trust and the Real Return Trust Custodian are required to provide a withholding tax certification, as referred to above, which satisfies the statutory and regulatory requirements relevant to the portfolio interest exception. Accordingly, Real Return Trust generally will not be subject to U.S. federal income tax on a gross basis in respect of the interest income from the Portfolio Securities.

### **ELIGIBILITY FOR INVESTMENT**

In the opinion of Osler, Hoskin & Harcourt LLP, counsel for the Fund, and Stikeman Elliott LLP, counsel for the Agents, provided that the Fund qualifies as a mutual fund trust within the meaning of the Tax Act, the Units 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 and for registered education savings plans.

### **USE OF PROCEEDS**

The Fund will use the gross proceeds from the sale of Units as follows:

	<b>Minimum Offering</b>	<b>Maximum Offering</b>
Gross proceeds to the Fund . . . . .	\$70,000,000	\$225,000,000
Agents’ Fees . . . . .	\$ 3,500,000	\$ 11,250,000
Estimated expenses of issue . . . . .	\$ 660,000	\$ 780,000
Net proceeds to the Fund . . . . .	<u>\$65,840,000</u>	<u>\$212,970,000</u>

Upon the completion of the Offering, the Fund will use the net proceeds of the Offering (including any net proceeds from the exercise of the Over-Allotment Option (as defined under “Plan of Distribution”)) to acquire the Common Share Portfolio.

### **PLAN OF DISTRIBUTION**

Pursuant to an agreement dated as of June 29, 2005 (the “Agency Agreement”) between Scotia Capital Inc., CIBC World Markets Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., TD Securities Inc., HSBC Securities (Canada) Inc., Desjardins Securities Inc., Richardson Partners Financial Limited, Wellington West Capital Inc., Canaccord Capital Corporation, First Associates Investments Inc. and Raymond James Ltd. (collectively, the “Agents”), the Manager, the Fund and the Agents have agreed to offer the Units for sale, as agents of the Fund, on a best efforts basis, if, as and when issued by the Fund. The Agents will receive a fee equal to \$0.50 for each Unit sold 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 Units offered hereby, the Agents will not be obligated to purchase Units that are not sold.

The Fund has granted the Agents an option (the “Over-Allotment Option”), exercisable in whole or in part at any time and from time to time during the period of 30 days following the closing of the Offering, to offer up to 15% of the aggregate number of Units issued at the closing of the Offering on the same terms set forth above, which additional Units are qualified hereunder. To the extent that the Over-Allotment Option is exercised, the additional Units will be offered at the Offering price hereunder and the Agents will be entitled to a fee of \$0.50 per Unit in respect of each Unit purchased.

If subscriptions for a minimum of 7,000,000 Units have not been received within 90 days following the date of issuance of a final receipt for the prospectus, the Offering may not continue without the consent of the securities regulatory authorities and those who have subscribed for Units 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. Proceeds from subscriptions will be held by the Agents until closing of the Offering. If the minimum offering is not achieved 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 Units 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 of the Offering is expected to take place on July 18, 2005, or such later date that is on or before August 31, 2005, as may be agreed upon by the Fund and the Agents.

The Toronto Stock Exchange (the “TSX”) has conditionally approved the listing of the Units subject to fulfillment by the Fund of the requirements of the TSX by September 20, 2005.

Pursuant to policy statements of certain securities regulatory authorities, the Agents may not, throughout the period of distribution, bid for or purchase Units. 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 Units. 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 the 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.

BMO Nesbitt Burns Inc. is an Agent of the Offering and an indirect wholly-owned subsidiary of Bank of Montreal. It is anticipated that Bank of Montreal and/or one or more of its affiliates (including BMO Nesbitt Burns Inc.) will enter into financial services transactions with the Fund or Real Return Trust, including but not limited to the Forward Agreement with the Fund described under “The Fund’s Investment Strategy — Forward Agreement”; one or more repurchase agreements with Real Return Trust of the type described under “The Portfolio — Leverage Strategy”; and foreign exchange, currency or other derivative transactions with Real Return Trust for the purposes described under “The Portfolio — Currency Hedging”. Consequently, the Fund may be considered a “connected issuer” of BMO Nesbitt Burns Inc. under applicable securities legislation. These transactions will be negotiated at arm’s length between Bank of Montreal or its affiliates, on the one hand, and the Fund or Real Return Trust, on the other hand, and as such will be on market terms and conditions. **Bank of Montreal and its affiliates will have priority rights under these transactions, which they may exercise without regard to the interests of Unitholders.**

#### CONFLICTS OF INTEREST

The management and administrative services provided by the Manager to the Fund pursuant to the Trust Agreement (and to Real Return Trust pursuant to Real Return Trust Agreement) are not exclusive and nothing in the Trust Agreement prevents CC&L from providing similar management services to other investment funds and clients (whether or not their investment objectives and policies are similar to those of the Fund or Real Return Trust) or from engaging in other activities. Investment decisions for Real Return Trust will be made independently of those made for other clients and independently of investments of the Manager. On occasion, however, the Manager may manage the same investment for Real Return Trust and for one or more of its other

clients. If Real Return Trust and one or more of the other clients of the Manager are engaged in the purchase or sale of the same security, the transactions will be effected on an equitable basis.

The investment management services provided by the Investment Advisor to Real Return Trust under the Investment Advisory Agreement are not exclusive and nothing in the Investment Advisory Agreement prevents the Investment Advisor from providing similar services for its own account or to other investment funds and other clients (whether or not their investment objectives and policies are similar to those of Real Return Trust) or from engaging in other activities. Investments in securities purchased by the Investment Advisor on behalf of Real Return Trust and other investment funds or trusts for which the Investment Advisor provides investment management services will be allocated to Real Return Trust and such other investment funds or trusts on a *pro rata* basis according to the size of the order and the applicable investment restrictions and policies of Real Return Trust and the other investment funds or trusts.

The Trust Agreement acknowledges that the Trustee may provide services to the Fund in other capacities, provided that the terms of any such arrangements are no less favourable to the Fund than those which would be obtained from parties which are at arm's length for comparable services. The Trustee may act as trustee of, and provide services to, other investment funds or trusts.

## **FEES AND EXPENSES**

### **Initial Expenses**

The expenses of the Offering, which are estimated to be \$680,000 (including the costs of creating the Fund, the costs of printing and preparing this prospectus, legal expenses of the Fund, marketing expenses and legal and other out-of-pocket expenses incurred by the Agents and certain other expenses), subject to a maximum of 1.5% of the gross proceeds of the Offering, will, together with the Agents' fees, be paid from the gross proceeds of the Offering.

### **Management and Investment Management Fees**

The breakdown of the management fees described above between the Fund and Real Return Trust is as follows:

As compensation for management services rendered to the Fund, the Manager is entitled to receive an annual management fee in an amount equal to 0.30% per annum of the NAV of the Fund, to be calculated and payable monthly in arrears, plus applicable taxes.

As compensation for management services rendered to Real Return Trust, the Manager is entitled to receive an annual management fee in an amount equal to 0.90% of the net asset value of Real Return Trust calculated and payable monthly in arrears, plus applicable taxes. The Manager, in its capacity as manager of Real Return Trust, is responsible for payment of the investment management fees of the Investment Advisor.

### **Operating Expenses**

The Fund will pay for all expenses incurred in connection with the operation and administration of the Fund. It is expected that these expenses will include, without limitation: (a) mailing and printing expenses for periodic reports to Unitholders; (b) fees payable to the Trustee for acting as trustee (except when the Manager is the Trustee); (c) fees payable to the Counterparty under the Forward Agreement; (d) commissions and the costs of portfolio transactions in respect of the Common Share Portfolio; (e) fees payable to the Fund Custodian; (f) fees payable to the auditors and legal advisors of the Fund; (g) regulatory filing, stock exchange and licensing fees; (h) fees and expenses of the Advisory Board incurred in connection with its duties with respect to the Fund; and (i) expenditures incurred upon the termination of the Fund. Such expenses will also include expenses of any action, suit or other proceedings in relation to which CC&L or the Trustee is entitled to indemnity by the Fund (as described under "Management of the Fund—The Manager" and "Management of the Fund—The Trustee"). The aggregate annual amount of these fees and expenses is estimated to be \$110,000, excluding any fees and interest under the Repurchase Agreements or other borrowings. The Fund will also be responsible for all commissions and other costs of portfolio transactions and any extraordinary expenses of the Fund which may be incurred from time to time.

The Fund will pay to the Counterparty a fee under the Forward Agreement of approximately 0.50% per annum of the net asset value of Real Return Trust. Such fee includes any hedging costs incurred by the Counterparty.

Real Return Trust will pay all ordinary expenses incurred in connection with the operation and administration of Real Return Trust, estimated to be \$30,000 per annum. Real Return Trust will also be responsible for commissions and other costs of portfolio transactions of Real Return Trust.

#### **Service Fee**

The Manager will pay to registered dealers a servicing fee (the “Service Fee”) equal to 0.30% annually of the NAV per Unit for each Unit held by clients of the registered dealer (calculated and paid at the end of each calendar quarter). The Service Fee payable to the registered dealers in respect of the quarter ending September 30, 2005, shall be pro-rated based on the fraction, the numerator of which is the number of days from and including the closing of the Offering to and including September 30, 2005, the denominator of which is equal to the number of days in that quarter.

#### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

The Manager will receive the fees described under “Fees and Expenses — Management and Investment Management Fees” for its services to the Fund and Real Return Trust and will be reimbursed by the Fund and Real Return Trust for all expenses incurred in connection with such services. The Manager is a promoter of the Fund.

#### **MATERIAL CONTRACTS**

The following contracts that have been, or will be, entered into by the Fund prior to closing of the Offering, other than contracts entered into in the ordinary course, that can reasonably be regarded as material to purchasers of Units:

- (a) the Trust Agreement of the Fund described under “The Fund”;
- (b) the Forward Agreement described under “The Fund — Investment Strategy”;
- (c) the Registrar and Transfer Agency Agreement between the Fund, the Manager and Computershare Investor Services Inc. to be entered into upon the closing of the Offering; and
- (d) the Agency Agreement described under “Plan of Distribution”.

Copies of the foregoing agreements, after the execution thereof, may be inspected during business hours at the principal office of the Fund during the course of distribution of the Units offered hereby. Any of the foregoing contracts that are not executed prior to the filing of this prospectus will be filed with the securities regulatory authorities forthwith after such contract is entered into.

#### **RISK FACTORS**

The following are certain considerations relating to an investment in Units, which prospective investors should consider before purchasing Units:

#### **No Assurances on Achieving Objectives**

There is no assurance that the Fund will be able to achieve its monthly distribution and capital preservation objectives. Furthermore, while the Manager will announce, from time to time, the Anticipated Distribution for a particular quarter, there is no assurance that distributions equal to the Anticipated Distribution will be paid and actual distributions may be materially less than Anticipated Distributions. There is no assurance that the Portfolio held by Real Return Trust will earn any return, which may have an indirect impact on the value of the Fund’s interest in the Forward Agreement.

There is no assurance that the Fund will be able to pay distributions. The funds available for distribution to Unitholders will vary according to, without limitation, the performance of the Portfolio, currency fluctuations and partial settlement of the Forward Agreement prior to the Termination Date.

As a consequence of entering into the Forward Agreement, the Fund will forego the benefits of any increase in the value of the Common Share Portfolio in excess of the settlement price under the Forward Agreement.

### **Interest Rate Risk**

Interest rate risk is the risk that bonds (and Real Return Trust's total managed assets) will change in value because of changes in interest rates. This is true of all bonds, including TIPS. Generally, bonds will decrease in value when interest rates rise and increase in value when interest rates decline. This means that the net asset value of Real Return Trust will fluctuate with interest rate changes and the corresponding changes in the value of Real Return Trust's bond holdings. The market value of the real return bonds may be adversely impacted by changes in real interest rates in that if the required level of real returns increases, the market value of the real return bonds held in the Portfolio will decline. Because Real Return Trust will invest primarily in intermediate-to-longer-term bonds, Real Return Trust's net asset value will fluctuate more in response to changes in market interest rates than if Real Return Trust invested primarily in shorter-term bonds. The Investment Advisor may use hedging strategies to mitigate this risk. Real Return Trust's use of leverage will increase interest rate risk.

### **Credit Risk**

The ability of Real Return Trust to meet its investment objectives is dependent upon the performance of Real Return Trust's assets. That performance, in turn, is subject to a number of risks, and in particular the credit risk of the Real Return Trust's underlying assets. Credit risk is the risk of non-payment of scheduled interest and/or principal payments. Although at least 80% of the Portfolio must be invested in securities backed by the full faith and credit of the United States Treasury or other Western government, the corporate debt exposure including high yield debt securities and the other portfolio investments are subject to credit risk.

### **Risks Relating to TIPS**

The value of inflation-protected securities such as TIPS generally fluctuates in response to changes in real interest rates, which are in turn tied to the relationship between nominal interest rates and the rate of inflation. Therefore, if inflation were to rise at a faster rate than nominal interest rates, real interest rates might decline, leading to an increase in value of TIPS. In contrast, if nominal interest rates increased at a faster rate than inflation, real interest rates might rise, leading to a decrease in value of TIPS. Although the principal value of TIPS declines in periods of deflation, holders at maturity receive no less than the par value of the bond. However, if Real Return Trust purchases TIPS in the secondary market whose principal values have been adjusted upward due to inflation since issuance, Real Return Trust may experience a loss if there is a subsequent period of deflation. If inflation is lower than expected during the period Real Return Trust holds TIPS, Real Return Trust may earn less on the security than on a conventional bond.

If real interest rates rise (i.e., if interest rates rise for reasons other than inflation, for example, due to changes in currency exchange rates), the value of the TIPS in Real Return Trust's Portfolio will decline. Moreover, because the principal amount of TIPS would be adjusted downward during a period of deflation, Real Return Trust will be subject to deflation risk with respect to its investments in these securities.

The daily adjustment of the principal value of TIPS is currently tied to the non-seasonally adjusted CPI-U, which the U.S. Bureau of Labor Statistics calculates monthly. The CPI-U is a measurement of changes in the cost of living, made up of components such as housing, food, transportation and energy. There can be no assurance that such index will accurately measure the real rate of inflation in the prices of goods and services in the U.S. In addition, calculation of the CPI-U includes a three-month lag for purposes of determining the principal value of TIPS which, consequently, could have a negative impact on the value of TIPS under certain market conditions.

## **Risks Associated with the Use of Leverage**

Real Return Trust will borrow against a substantial portion of the market value of Portfolio and use the borrowed funds to acquire additional Portfolio securities. Real Return Trust will earn money based upon the spread between the interest it receives on the Portfolio securities, net of amortization of purchase premiums, and the interest paid on its borrowings. The Investment Advisor expects to operate Real Return Trust with a debt-to-equity ratio of 1.6:1 (representing a total asset to equity ratio of 2.6:1). Real Return Trust may borrow an amount that is not more than 200% of the value of its pre-leverage net assets. Although such use of leverage by the Real Return Trust may create an opportunity for increased return for the Real Return Trust and therefore the Units, it also results in additional risks and can magnify the effect of any losses. If the income and gains earned on the securities and investments purchased with borrowing proceeds are greater than the cost of the borrowing and the fees thereon, the Units' return will be greater than if leverage had not been used. Conversely, if the income or gains from the securities and investments purchased with such proceeds does not cover the cost of borrowing the fees thereon, the return on the Units will be less than if leverage had not been used. There is no assurance that a leveraging strategy will be successful. Leverage involves risks and special considerations for Unitholders including:

- (i) the likelihood of greater volatility of NAV and market price of the Units than exposure to a comparable portfolio without leverage;
- (ii) the risk that fluctuations in interest rates on the Real Return Trust's borrowings and short-term debt held by the Real Return Trust may reduce the return to Unitholders or may result in fluctuations in the distributions paid on the Units; and
- (iii) the effect of leverage in a declining market, which is likely to cause a greater decline in the NAV of the Units than if the Real Return Trust were not leveraged, which may result in a greater decline in the market price of the Units.

## **Units Will Not Track Canadian Inflation**

Real Return Trust will invest primarily in TIPS, which are real returns bonds that provide protection against inflation in the United States. As the inflation rate in Canada may be different than inflation in the United States, an investment in Units will not provide protection which tracks the Canadian rate of inflation.

## **Performance of Portfolio Securities**

By virtue of the Forward Agreement, the NAV of the Units will vary according to the value of the Portfolio securities in which Real Return Trust invests.

## **Trading Price of the Units Relative to Net Asset Value**

Historically, units of certain closed-end trusts in Canada have traded at a discount to NAV. This risk associated with units of a closed-end trust is a risk separate and distinct from the risk that the Fund's NAV may decrease. The Fund cannot predict whether the Units will trade at a discount from, a premium to, or at the Fund's NAV.

## **Risks Associated with Emerging Markets Debt Securities**

The risks of non-U.S. investments are greater for investments in securities or instruments of issuers based in developing or "emerging market" countries. Emerging market countries typically have economic and political systems that are less fully developed, and can be expected to be less stable, than those of more developed countries. For example, the economies of such countries can be subject to rapid and unpredictable rates of inflation or deflation. Low trading volumes may result in a lack of liquidity and in price volatility. Emerging market countries may have policies that restrict investment by foreigners, or that prevent foreign investors from withdrawing their money at will. Because the Real Return Trust may invest in securities or instruments of emerging market issuers, investors should be able to tolerate sudden and sometimes substantial fluctuations in the value of their investments in the Real Return Trust.

### **Risks Associated with Mortgage-Backed and Other Asset-Backed Securities**

Rising interest rates tend to extend the duration of mortgage-backed securities, making them more sensitive to changes in interest rates. In addition, mortgage-backed securities are subject to prepayment risk. Many fixed income securities, especially those issued at high interest rates, provide that the issuer may repay them early. Issuers often exercise this right when interest rates decline. Accordingly, holders of securities that may be called or prepaid may not benefit fully from the increase in value that other fixed income securities experience when rates decline. Furthermore, Real Return Trust will reinvest the proceeds of the repayment at then current yields, which will be lower than those paid by the security that was paid off.

The prices of asset-backed securities tend to fluctuate in response to changing interest rates in the general economy. When interest rates rise, prices of asset-backed securities will tend to fall. In addition, asset-backed securities are also subject to early-amortization events. A variety of developments may cause an early-amortization event including: insufficient payments by the underlying borrowers; insufficient excess spread; a rise in the default rate on the underlying loans above a specified level; a drop in available credit enhancements below a specified level and bankruptcy on the part of the sponsor or the servicer.

### **Risks Associated with Commodity Index Investments**

Futures contracts occasionally experience disruptions in trading including the cessation, for a material time, of trading in the futures contracts included in the Commodity Index or the imposition by the futures exchange on which one or more of such futures contracts are traded of a “limit price” (outside of which such futures contracts is not permitted to trade). In addition, a futures exchange may replace or delist a futures contract included in the Commodity Index. While procedures have been established in the rules governing the Commodity Index, there can be no assurance that a market disruption event or the replacement or delisting of a commodity contract will not have an adverse or distortive effect on the value of the Commodity Index or the manner in which it is calculated.

### **Counterparty Risk Associated with the Forward Agreement**

The Fund will enter into the Forward Agreement as described under “The Fund’s Investment Strategy — Forward Agreement” with the Counterparty pursuant to which the Fund will be required to deliver to the Counterparty, on the Termination Date, the Common Share Portfolio in exchange for a payment in an amount equal to the redemption proceeds for a corresponding number of units of the Real Return Trust. In entering into the Forward Agreement, the Fund will be exposed to the credit risk associated with the Counterparty. Depending on the value of the Common Share Portfolio, the Fund’s exposure to the credit risk of the Counterparty may be significant. In addition, the Counterparty may terminate the Forward Agreement in certain circumstances, in which case the Fund may not be able to meet its investment objectives. Furthermore, the possibility exists that the Counterparty or any guarantor of the obligations of the Counterparty pursuant to the Forward Agreement will default on their payment obligations under the Forward Agreement or that the proceeds of the Forward Agreement will be used to satisfy other liabilities of the Fund, which liabilities could include obligations to third party creditors if the Fund has insufficient assets, excluding the proceeds of the Forward Agreement, to pay its liabilities. Unitholders will have no recourse or rights against the assets of the Portfolio or the Counterparty in respect of the Forward Agreement or arising out of the Forward Agreement.

### **Counterparty Risk Associated with Repurchase Agreements**

Real Return Trust will also enter into Repurchase Agreements to finance the acquisition of the leveraged portion of the Portfolio, as described under “The Portfolio — Leverage Strategy”, and will be exposed to the risk of loss should the lender default on its obligation to resell the pledged Portfolio securities back to Real Return Trust at the maturity of the borrowing. In order to reduce its exposure to counterparty related risk, Real Return Trust will enter into Repurchase Agreements only with financial institutions that have a long-term debt rating of, or to the extent applicable, have a holding or parent company with a long-term debt rating of, A or better as determined by S&P.

### **Counterparty Risk Associated with Securities Lending**

The Fund may engage in securities lending as described under “The Fund’s Investment Strategy — Securities Lending”. Although the Fund will receive collateral for the loans and such collateral is marked to market, the Fund will be exposed to the risk of loss should the borrower default on its obligation to return the borrowed securities and the collateral is insufficient to reconstitute the portfolio of loaned securities.

### **Swaps, Caps and other Risks associated with Derivative Instruments**

Real Return Trust may enter into derivative instruments, namely interest rate swaps and caps to help mitigate the prepayment and interest rate risks described above. No hedging strategy, however, can completely insulate Real Return Trust from the interest rate risks to which it is exposed.

In addition, Real Return Trust’s use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives are subject to a number of risks, such as liquidity risk, interest rate risk, market risk, credit risk, leveraging risk, counterparty risk and management risk. They also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index. When Real Return Trust invests in a derivative instrument, it could lose more than the principal amount invested.

### **Foreign Currency Exposure**

Real Return Trust will hedge against currency risk initially in the amount of the U.S. dollar currency exposure of the Portfolio at inception. However, distributions on the Units will not be hedged and changes in the exchange rates may have an adverse effect on such distributions. To the extent that the net asset value of the Real Return Trust in U.S. dollar terms increases or decreases, the net asset value will be underhedged or overhedged unless the Manager adjusts the hedge.

### **Reliance on Manager and Investment Advisor**

Unitholders will be primarily dependent on the management of the Manager and the Investment Advisor. Investors who are not willing to rely on the management of the Manager and the Investment Advisor should not invest in the Units.

The Fund is subject to management risk because it is an actively managed investment portfolio. Western Asset will apply investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these will produce the desired results.

### **Key Personnel**

There can be no assurance that certain key personnel will continue to be employees of the Manager throughout the Manager’s term as Manager of the Fund. Similarly, there can be no assurance that certain key personnel will continue to be employees of the Investment Advisor throughout its term as Investment Advisor of Real Return Trust.

### **Securities Legislation**

As the Fund is not a mutual fund as defined under Canadian securities laws, the Fund is not subject to NI 81-102 and other policies and regulations of the securities regulatory authorities that apply to open-end mutual funds.

### **Changes in Canadian Tax Legislation**

There can be no assurance that Canadian income tax laws and the treatment of mutual fund trusts under the Tax Act will not be changed in a manner which adversely affects the distributions received by the Unitholders.

## **Changes in United States Tax Legislation**

There can be no assurance that the income tax laws of the United States relating to the availability of the portfolio interest exemption will not be changed in a manner which adversely affects the distributions received by Real Return Trust, which may have an indirect impact on the value of the Forward Agreement.

## **Operating History and Marketability of Units**

The Fund is a newly organized investment trust with no previous operating history. There is currently no public market for the Units and there can be no assurance that an active public market will develop or be sustained after completion of the Offering.

## **Taxation of the Fund**

In determining its income for tax purposes, the Fund will treat gains or losses on the dispositions of securities in the Common Share Portfolio under the Forward Agreement as capital gains and losses. The Canada Revenue Agency's practice is not to grant advance income tax rulings on the characterization of items as capital gains or income and no advance income tax ruling has been requested or obtained.

If, contrary to the advice of counsel to the Fund and to the Agents or as a result of a change of law, upon physical settlement of the Forward Agreement the classification of the gain under the Forward Agreement is deemed to be something other than a capital gain on the sale of common shares thereunder, after-tax returns to Unitholders could be reduced.

Under the October 31 Proposals, for taxation years beginning after 2004 a taxpayer will be considered to have a loss from a business or property for a taxation year only if, in that year, it is reasonable to assume that the taxpayer will realize a cumulative profit from the business or property during the time that the taxpayer has carried on, and can reasonably be expected to carry on, the business or has held, and can reasonably be expected to hold, the property. Profit, for this purpose, does not include capital gains or capital losses. The October 31 Proposals, if enacted in the form proposed, could limit losses or adversely affect the deduction of expenses of the Fund from a particular source that is a business or property in taxation years commencing after 2004, thereby reducing after tax returns to Unitholders. On February 23, 2005 the Department of Finance announced that it has developed an alternative proposal to the October 31 Proposals which it intends, at an early opportunity, to release for comment.

## **Nature of Units**

The Units share certain attributes common to both equity securities and debt instruments. However, the Units are dissimilar to debt instruments in that there is no principal amount owing to Unitholders. The Units represent a fractional interest in the assets of the Fund. Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions.

## **LEGAL OPINIONS**

The matters referred to under "Eligibility for Investment" and "Canadian Federal Income Tax Considerations" and "United States Federal Income and Withholding Tax Consequences" and certain other legal matters relating to the securities offered hereby will be passed upon, on behalf of the Fund, by Osler, Hoskin & Harcourt LLP and Shearman & Sterling LLP (with respect to U.S. federal income tax matters) and on behalf of the Agents, by Stikeman Elliott LLP.

## **PROMOTER**

CC&L has taken the initiative in organizing the Fund and accordingly may be considered to be a "promoter" of the Fund within the meaning of the securities legislation of certain provinces of Canada. CC&L will receive fees from the Fund and will be entitled to reimbursement of expenses incurred in relation to the Fund as described under "Fees and Expenses — Management and Investment Management Fees".

## **AUDITORS, REGISTRAR AND TRANSFER AGENT**

The auditors of the Fund and Real Return Trust are PricewaterhouseCoopers LLP, Toronto, Canada. Computershare Investor Services Inc. at its principal office in Toronto will be appointed the registrar and transfer agent for the Units.

## **PURCHASERS' STATUTORY RIGHTS**

Securities legislation in several 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 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.

In addition, the Manager has agreed on behalf of the Fund that purchasers in the Province of Québec have the right to withdraw from an agreement to purchase Units which may be exercised within two business days after receipt or deemed receipt of the non-offering prospectus of Real Return Trust. See "Plan of Distribution".

### **AUDITORS' CONSENT**

We have read the prospectus of Connor, Clark & Lunn Real Return Income Fund (the "Fund") dated June 29, 2005 relating to the issue and sale of units of the Fund. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above mentioned prospectus of our report to the trustee and Manager of the Fund on the statement of financial position of the Fund as at June 29, 2005. Our report is dated June 29, 2005.

Toronto, Ontario  
June 29, 2005

(Signed) PRICEWATERHOUSECOOPERS LLP  
Chartered Accountants

### **AUDITORS' REPORT**

To the Trustee and Manager of Connor, Clark & Lunn Real Return Income Fund

We have audited the statement of financial position of Connor, Clark & Lunn Real Return Income Fund (the "Fund") as at June 29, 2005. This statement of financial position is the responsibility of the Fund's management. Our responsibility is to express an opinion on this statement of financial position 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, the statement of financial position presents fairly, in all material respects, the financial position of the Fund as at June 29, 2005 in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario  
June 29, 2005

(Signed) PRICEWATERHOUSECOOPERS LLP  
Chartered Accountants

**CONNOR, CLARK & LUNN REAL RETURN INCOME FUND**

**STATEMENT OF FINANCIAL POSITION**

**June 29, 2005**

**ASSETS**

Cash . . . . . \$10

**UNITHOLDER'S EQUITY (Note 1):**

Units (Note 1) . . . . . \$10

Approved by the Manager:

(Signed) W. NEIL MURDOCH  
Chief Executive Officer

(Signed) PHILIP K. GOW  
Chief Financial Officer

*The accompanying notes are an integral part of this statement of financial position.*

**NOTES TO CONNOR, CLARK & LUNN REAL RETURN INCOME FUND**  
**STATEMENT OF FINANCIAL POSITION**  
**June 29, 2005**

**1. UNITS — AUTHORIZED AND OUTSTANDING**

Connor, Clark & Lunn Real Return Income Fund (the “Fund”) is authorized to issue an unlimited number of Units. On June 29, 2005, the Fund issued 1 unit for \$10.00 cash.

**2. AGENCY AGREEMENT**

The Fund has engaged Scotia Capital Inc., CIBC World Markets Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., TD Securities Inc., HSBC Securities (Canada) Inc., Desjardins Securities Inc., Richardson Partners Financial Limited, Wellington West Capital Inc., Canaccord Capital Corporation, First Associates Investments Inc. and Raymond James Ltd. (collectively, the “Agents”) to offer Units for sale to the public pursuant to a prospectus dated June 29, 2005 (the “Offering”).

**3. MANAGEMENT FEES AND OTHER EXPENSES**

In order to meet its investment objectives, the Fund intends to obtain exposure to the performance of real return bonds held by a newly created investment trust (the “Real Return Trust”) by entering into one or more forward purchase and sale agreements (collectively, the “Forward Agreement”) with Bank of Montreal (the “Counterparty”). The Fund will not invest directly in Real Return Trust. The Fund will invest the net proceeds of the Offering in a portfolio of common shares of Canadian public companies (the “Common Share Portfolio”). Under the Forward Agreement, the Fund will be entitled to sell securities in the Common Share Portfolio from time to time to fund monthly distributions, redemptions and repurchases of Units and its operating expenses.

The Fund will pay to the Counterparty a fee under the Forward Agreement of approximately 0.50% per annum of the net asset value of Real Return Trust. Such fee includes any hedging costs incurred by the Counterparty.

As compensation for management services rendered to the Fund, Connor, Clark & Lunn Capital Markets Inc. will receive an annual fee in an amount equal to 0.30% of the NAV of the Fund, calculated and payable monthly, plus an amount equal to the Service Fee (defined below) payable to registered dealers. The Service Fee is equal to 0.30% annually of the NAV per Unit for each Unit held by clients of registered dealers (calculated and paid at the end of each calendar quarter).

**CERTIFICATE OF THE ISSUER, THE MANAGER, AND THE PROMOTER**

Dated: June 29, 2005

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), by Part 3 of the *Securities Act* (Yukon Territory), by the *Securities Act* (Northwest Territories) and by 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.

**CONNOR, CLARK & LUNN CAPITAL MARKETS INC.**  
(as Manager, and on behalf of the Fund)

(Signed) W. NEIL MURDOCH  
Chief Executive Officer

(Signed) PHILIP K. GOW  
Chief Financial Officer

ON BEHALF OF THE BOARD OF DIRECTORS OF  
CONNOR, CLARK & LUNN CAPITAL MARKETS INC.

(Signed) W. NEIL MURDOCH  
Director

(Signed) PHILIP K. GOW  
Director

(Signed) MICHAEL W. FREUND  
Director

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

(Signed) W. NEIL MURDOCH  
Director

**CERTIFICATE OF THE AGENTS**

Dated: June 29, 2005

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), by Part 3 of the *Securities Act* (Yukon Territory), by the *Securities Act* (Northwest Territories) and by 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.

**SCOTIA CAPITAL INC.**

By: (Signed) BRIAN D. MCCHESENEY

**CIBC WORLD MARKETS INC.**

By: (Signed) RONALD W.A. MITCHELL

**BMO NESBITT BURNS INC.**

**RBC DOMINION SECURITIES INC.**

**TD SECURITIES INC.**

By: (Signed) DAVID R. THOMAS

By: (Signed) EDWARD V. JACKSON

By: (Signed) J. DAVID BEATTIE

**HSBC SECURITIES (CANADA) INC.**

By: (Signed) DEBORAH J. SIMKINS

**DESJARDINS  
SECURITIES INC.**

**RICHARDSON PARTNERS  
FINANCIAL LIMITED**

**WELLINGTON WEST  
CAPITAL INC.**

By: (Signed) BETH A. SHAW

By: (Signed) CLANCY ETHANS

By: (Signed) BRENT BOTTOMLEY

**CANACCORD CAPITAL CORPORATION**

**FIRST ASSOCIATES  
INVESTMENTS INC.**

**RAYMOND  
JAMES LTD.**

By: (Signed) CRAIG WARREN

By: (Signed) PATRICK S. LEUNG

By: (Signed) SARA MINATEL

Connor, Clark & Lunn  
CAPITAL MARKETS INC.

 WESTERN ASSET