

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

Prospectus

Initial Public Offerings

January 28, 2002



**US\$156,090,000**

**US\$73,590,000  
6,600,000 Capital Shares**

**US\$82,500,000  
3,300,000 Preferred Shares**

**Prices: US\$11.15 per Capital Share and US\$25.00 per Preferred Share**

**(Two Capital Shares will be issued for each Preferred Share)**

SNP Health Split Corp. (the “Company”) will hold a portfolio (the “Portfolio”) of the common shares (the “Portfolio Shares”) of the companies that make up the *S&P Health Care Sector Index* of the S&P 500 Index in order to generate distributions for the holders of the Company’s class A preferred shares (the “Preferred Shares”) and to enable the holders of the Company’s class A capital shares (the “Capital Shares”) to participate in capital appreciation in the Portfolio Shares. The *S&P Health Care Sector Index* of the S&P 500 Index (the “Health Care Index”) is a market capitalization weighted group of the companies in the S&P 500 Index that are involved in the business of health care related products or services.

The Capital Shares and the Preferred Shares are offered separately but will be issued only on the basis that two Capital Shares will be issued for each Preferred Share issued. The net proceeds from the offering of the Capital Shares and the Preferred Shares will be used by the Company to fund the purchase of the Portfolio Shares. Holders of Capital Shares and Preferred Shares will have no voting rights with respect to the Portfolio Shares.

The Toronto Stock Exchange has conditionally approved the listing of the Capital Shares and the Preferred Shares, subject to fulfillment by the Company of the requirements of such stock exchange on or before March 20, 2002, including distribution to a minimum number of holders.

The Capital Shares and the Preferred Shares may be surrendered for retraction at any time and will be redeemed by the Company on February 11, 2009 (the “Redemption Date”). In addition, prior to the Redemption Date, the Preferred Shares will be redeemable by the Company annually on February 11 in each year commencing on February 11, 2003 or, where such day is not a business day, on the preceding business day, to the extent that any Capital Shares have been retracted. See “Details of the Offerings – Certain Provisions of the Capital Shares – Retraction” and “Details of the Offerings – Certain Provisions of the Capital Shares – Redemption” and “Details of the Offerings – Certain Provisions of the Preferred Shares – Retraction” and “Details of the Offerings – Certain Provisions of the Preferred Shares – Redemption”.

**CAPITAL SHARES**

The Capital Shares will be entitled on redemption to the benefit of all capital appreciation in the market price of the Portfolio Shares after payment of operating expenses of the Company. Holders of Capital Shares will not be entitled to receive dividends in the ordinary course. The Company may declare capital gains dividends on the Capital Shares in the event that changes to the constituent companies of the Health Care Index generate net taxable capital gains. See “Details of the Offerings – Certain Provisions of the Capital Shares” and “The Company – Distribution Policy”.

**PREFERRED SHARES**

Holders of Preferred Shares will be entitled to receive quarterly fixed cumulative preferential distributions equal to US\$0.375 per Preferred Share. On an annualized basis, this would represent a yield on the offering price of the Preferred Shares of 6.0%. The initial distribution is expected to be US\$0.390 per Preferred Share and is expected to be payable on or about May 11, 2002 based upon the anticipated closing date of February 5, 2002. See “Details of the Offerings – Certain Provisions of the Preferred Shares”.

	<u>Price to the Public<sup>(1)</sup></u>	<u>Agent’s Fees</u>	<u>Net Proceeds to the Company<sup>(2)</sup></u>
Per Capital Share .....	US\$ 11.15	US\$ 0.669	US\$ 10.481
Total <sup>(3)</sup> .....	US\$73,590,000	US\$4,415,400	US\$69,174,600
Per Preferred Share .....	US\$ 25.00	US\$ 0.75	US\$ 24.25
Total <sup>(3)</sup> .....	US\$82,500,000	US\$2,475,000	US\$80,025,000

(1) The offering prices were established by the Agents.

(2) Before deducting the expenses of the offerings payable on closing, estimated at US\$500,000, which will be paid by the Company out of the proceeds of these offerings.

(3) There will be no closing unless a minimum of 6,600,000 Capital Shares and 3,300,000 Preferred Shares are sold.

In the opinion of Osler, Hoskin & Harcourt LLP, the Capital Shares and the Preferred Shares, if, as and when listed on a prescribed stock exchange, will be qualified investments under the *Income Tax Act* (Canada) for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans or deferred profit sharing plans and the purchase of such shares is not prohibited for investment under certain statutes, as set out under “Eligibility for Investment”. Such shares will be foreign property under the *Income Tax Act* (Canada). **Prospective purchasers should consult their own tax advisors with respect to the income tax consequences of investing in the Capital Shares or the Preferred Shares.**

The Company is considered to be a mutual fund but does not generally operate in accordance with the policies of the Canadian securities regulators applicable to conventional mutual funds.

**See “Investment Considerations and Risk Factors” for a discussion of certain factors that should be considered by prospective purchasers of Capital Shares and Preferred Shares.**

**Scotia Capital Inc. (“Scotia Capital”) is the promoter and one of the Agents of the Company. The Company is a related and connected issuer of Scotia Capital under applicable securities legislation by virtue of Scotia Capital’s relationship with the Company. Scotia Capital will purchase, as agent on behalf of the Company, the Portfolio Shares pursuant to the Securities Purchase Agreement and is entitled to receive commissions in respect of such purchases and reimbursement of expenses. See “The Company – The Portfolio”. Certain of the directors and officers of the Company are currently employees of Scotia Capital. Each of Scotia Capital and SNP Health Split Holdings Corp. owns 50% of the Class J Shares of the Company. Two employees of Scotia Capital each own 50% of the common shares of SNP Health Split Holdings Corp. Scotia Capital will administer the operations of the Company pursuant to the Administration Agreement and will receive fees therefor. See “Interest of Management and Others in Material Transactions”.**

Scotia Capital, BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., RBC Dominion Securities Inc., TD Securities Inc., HSBC Securities (Canada) Inc., Canaccord Capital Corporation, Raymond James Ltd., Yorkton Securities Inc. and Trilon Securities Corporation (the “Agents”), as agents, conditionally offer the Capital Shares and the Preferred Shares subject to prior sale on a best efforts basis, if, as and when issued by the Company and accepted by the Agents in accordance with the conditions contained in the Agency Agreement, and subject to the approval of certain legal matters by Osler, Hoskin & Harcourt LLP, on behalf of the Company and the Agents. See “Plan of Distribution”. The Agents may over-allot or effect transactions as described under “Plan of Distribution”.

Subscriptions will be received for the Capital Shares and the Preferred Shares offered hereby, subject to rejection or allotment in whole or in part, and the right is reserved to close the subscription books at any time. Closing of these offerings is expected to occur on or about February 5, 2002 but no later than April 25, 2002. Registrations and transfers of Capital Shares and Preferred Shares will be effected only through the book-entry only system administered by The Canadian Depository for Securities Limited. Beneficial owners of Capital Shares and Preferred Shares will not have the right to receive physical certificates evidencing their ownership of such shares.

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## PROSPECTUS SUMMARY

*The following is a summary of the principal features of this distribution and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus.*

### SNP Health Split Corp.

SNP Health Split Corp. (the “Company”) will hold a portfolio (the “Portfolio”) of the common shares (the “Portfolio Shares”) of the companies that make up the *S&P Health Care Sector Index* of the S&P 500 Index in order to generate distributions for the holders of the Company’s class A preferred shares (the “Preferred Shares”) and to enable the holders of the Company’s class A capital shares (the “Capital Shares”) to participate in capital appreciation in the Portfolio Shares. The net proceeds from the offering of the Capital Shares and the Preferred Shares offered hereby will be used by the Company to fund the purchase of the Portfolio Shares.

Connor, Clark & Lunn Capital Markets Inc. (the “Investment Manager”) will act as investment manager of the Company pursuant to an investment management agreement dated as of January 28, 2002 and will, among other things, manage the Portfolio so that the Portfolio tracks the weightings of the constituent companies of the *S&P Health Care Sector Index* of the S&P 500 Index and will write covered call options on a portion of the Company’s Portfolio Shares and where appropriate cash covered put options. See “The Company – Investment Manager.” Scotia Capital Inc. (“Scotia Capital”) will act as the administrator of the Company (the “Administrator”) pursuant to an administration agreement dated as of January 28, 2002 and will administer the ongoing operations of the Company. See “The Company – Operating Expenses and Administration”.

### The Health Care Index

The *S&P Health Care Sector Index* of the S&P 500 Index (the “Health Care Index”) is a market capitalization weighted group of the companies in the S&P 500 Index that are involved in the business of health care related products or services. The S&P 500 Index is a widely used market-value weighted index consisting of 500 stocks chosen for their company’s market capitalization, liquidity and sector representation. Companies included in the *S&P Health Care Sector Index* are selected from the S&P 500 Index using the Global Classification Standard (“GICS”), a standard that is jointly maintained by Standard & Poor’s Corporation (“S&P”) and Morgan Stanley Capital International (“MSCI”), which assigns companies to an industry sector according to the definition of their principal business activity as determined by S&P and MSCI. Revenues are a significant factor in defining principal business activity; however, earnings analysis and market perception are also important criteria for classification. The sub-industry groups included in the Health Care Index are as follows: Health Care Equipment, Health Care Supplies, Health Care Distributors & Services, Health Care Facilities, Managed Health Care, Biotechnology, and Pharmaceuticals.

### The Offerings

<b>Offerings:</b>	The offerings consist of the Capital Shares and the Preferred Shares of the Company.
<b>Amounts:</b>	US\$73,590,000 (6,600,000 Capital Shares) US\$82,500,000 (3,300,000 Preferred Shares)
<b>Prices:</b>	US\$11.15 per Capital Share US\$25.00 per Preferred Share
<b>Unit and Unit Value:</b>	A “Unit” is considered to consist of two Capital Shares and one Preferred Share. “Unit Value” is generally equal to the net amount received by the Company per Unit on the disposition of that number of Portfolio Shares represented by the Unit’s pro rata share of each of the Portfolio Shares or, if it is determined that it is not

practicable to sell Portfolio Shares, Unit Value will be determined with reference to the closing price for the Portfolio Shares on the 28th day of the applicable month (a “Valuation Date”) less in each case the pro rata cost per Unit of closing out any options plus the pro rata value per Unit of the other net assets of the Company. See “Details of the Offerings – Unit Value”.

### Capital Shares

**Investment Objective:**

The Capital Shares will provide their holders with a leveraged investment, the value of which is linked to changes in the market price of the common shares of the companies that make up the Health Care Index. See “The Company – The Portfolio” and “The Health Care Index”. Holders of Capital Shares will be entitled on redemption to the benefit of any capital appreciation in the market price of the Portfolio Shares after payment of operating expenses of the Company. The fixed distributions on the Preferred Shares will be funded from the dividends received on the Portfolio Shares together with premiums earned from writing covered call options on a portion of the Portfolio Shares and where appropriate cash covered put options. If the dividends on the Portfolio Shares exceed the amount of the fixed Preferred Share distributions and all expenses of the Company, the excess amount will be paid as dividends on the Capital Shares or reinvested by the Company in additional Portfolio Shares or in interest bearing debt securities for the benefit of holders of Capital Shares, as determined by the Board of Directors of the Company. See “Details of the Offerings – Certain Provisions of the Capital Shares” and “The Company – Distribution Policy”.

**Retraction:**

Capital Shares may be surrendered for retraction at any time. Retraction payments for Capital Shares will be made on the eleventh day of each month or, where such day is not a business day, on the preceding business day (a “Retraction Payment Date”) provided the Capital Shares have been surrendered for retraction at least one business day before the 28th day of the preceding month.

*Regular Retraction* – A holder retracting two Capital Shares under a Regular Retraction will receive the amount, if any, by which 95% of the Unit Value exceeds the aggregate of (i) the average cost to the Company, including commissions, of purchasing a Preferred Share in the market; and (ii) US\$1.00.

*Concurrent Retraction* – A holder who surrenders two Capital Shares together with one Preferred Share under a Concurrent Retraction will receive a cash price equal to 95% of the Unit Value less US\$1.00.

*Special Annual Retraction* – A holder retracting two Capital Shares under a Special Annual Retraction for payment on the Retraction Payment Date occurring on February 11 in each year commencing on February 11, 2003, or where such day is not a business day, on the preceding business day (each an “Annual Retraction Payment Date”), will receive the amount, if any, by which the Unit Value exceeds US\$25.00.

A holder who surrenders two Capital Shares together with one Preferred Share under a Special Annual Retraction will receive a cash price equal to the Unit Value.

Provided a holder of Capital Shares surrenders 10,000 or more Capital Shares for retraction and tenders either one Preferred Share for every two Capital Shares retracted or a cash amount equal to US\$25.00 for every two Capital Shares retracted, such holder may elect to receive the holder’s pro rata share of the Portfolio Shares less the cost of closing out any options written by the Company plus other net assets of the Company represented by the Capital Shares retracted.

**Redemption:**

Any outstanding Capital Shares will be redeemed by the Company on February 11, 2009 (the “Redemption Date”). On such redemption, each holder will receive for every two Capital Shares redeemed, at the holder’s option, either (i) the amount, if any, by which the Unit Value on such date exceeds US\$25.00; or (ii) provided the holder has tendered a cash amount of US\$25.00 for every two Capital Shares redeemed, the holder’s pro rata share of the Portfolio Shares and other net assets of the Company. See “Details of the Offerings – Certain Provisions of the Capital Shares – Redemption”.

In addition, the Board of Directors has the right to redeem the Capital Shares then outstanding at the next Annual Retraction Payment Date if the market value of the Portfolio Shares is US\$20,000,000 or less for two consecutive Valuation Dates. See “Details of the Offerings – Certain Provisions of the Capital Shares – Automatic Redemption”.

**Dividends:**

It is not currently expected that holders of the Capital Shares will receive any dividends. If dividends on the Portfolio Shares exceed the amount of the fixed Preferred Share distributions and all expenses of the Company, the excess may be paid as dividends on the Capital Shares. In addition, if the Company realizes capital gains and would be liable to pay tax thereon, the Company may declare a capital gains dividend on the Capital Shares in cash and/or Capital Shares. Such dividend will minimize any tax payable by the Company and, as such, should benefit the Company and its shareholders. See “The Company – Distribution Policy”.

**Priority:**

The Capital Shares will rank subsequent to the Preferred Shares and prior to the Class J Shares with respect to the payment of dividends, distributions upon a redemption or retraction and distributions upon a dissolution, liquidation or winding-up of the Company.

**Preferred Shares****Distributions:**

Holders of the Preferred Shares will be entitled to receive quarterly fixed cumulative preferential distributions equal to US\$0.375 per Preferred Share. On an annualized basis, this would represent a yield on the Preferred Share offering price of 6.0%. Such distributions will consist of capital gains dividends and non-taxable returns of capital and may include ordinary dividends. Such quarterly distributions are expected to be paid by the Company on or about the eleventh day of February, May, August and November in each year. The initial distribution is expected to be US\$0.390 per Preferred Share and is expected to be payable on or about May 11, 2002 based upon the anticipated closing date of February 5, 2002. See “Details of the Offerings – Certain Provisions of the Preferred Shares”, “The Company – Distribution Policy” and “Canadian Federal Income Tax Considerations – Tax Treatment of Distributions on Preferred Shares and Capital Shares”.

Preferred Share distributions will be funded from the dividends received on the Portfolio Shares together with premiums earned from writing covered call options on a portion of the Portfolio Shares and where appropriate cash covered put options or on a temporary basis from borrowings under the Company’s revolving credit facility. The Company expects to fund an amount equal to approximately 2.9% of the Portfolio value by writing covered call options on the Portfolio Shares to meet its annual distribution requirements. These amounts would generally be distributed as a capital gains dividend on the Preferred Shares.

The following table illustrates the percentage of the Portfolio on which call options must be written to meet this funding requirement (assuming the writing of covered call options that are 1% to 4% out-of-the-money and at-the-money). The option

premiums have been calculated using a Black-Scholes Model (modified to include dividends) based on the assumptions set out under the heading “Covered Call Option Writing – Call Option Pricing”.

**Percentage of Portfolio on which Call Options must be Written to Meet the Distribution Requirement**

Strike Price (% out-of-the-money)	Average Volatility of Individual Shares in the Portfolio				
	20%	30%	40%	50%	60%
4% .....	28.5%	13.2%	8.4%	6.1%	4.7%
3% .....	21.7%	11.2%	7.4%	5.5%	4.4%
2% .....	16.8%	9.6%	6.6%	5.1%	4.1%
1% .....	13.3%	8.2%	5.9%	4.7%	3.8%
0% .....	10.6%	7.1%	5.3%	4.3%	3.6%

The weighted average 90-day volatility of the securities in the Portfolio was 28.7% as of January 14, 2002. See “The Company – The Portfolio”.

**The information set forth above is for illustrative purposes only and should not be construed as a forecast or projection. Although many investors and financial market professionals price options based on the Black-Scholes Model, in practice actual option premiums are determined in the marketplace and no assurance can be given that the returns shown in this table will ever be available or realized.**

The Portfolio Shares which may be subject to call options and the terms of such options will vary from time to time based on the Investment Manager’s assessment of market conditions.

Changes to the Health Care Index which generate capital gains for the Company may result in the Company designating a larger portion of a Preferred Share distribution as a capital gains dividend. See “Details of the Offerings – Certain Provisions of the Preferred Shares”, “The Company – Distribution Policy” and “Canadian Federal Income Tax Considerations – Tax Treatment of Distributions on Preferred Shares and Capital Shares”.

**Retraction:**

Preferred Shares may be surrendered for retraction at any time. Retraction payments for Preferred Shares will be made on the Retraction Payment Date in a month provided the Preferred Shares have been surrendered at least one business day before the 28th day of the preceding month.

A holder retracting Preferred Shares will receive a cash price per Preferred Share retracted equal to the amount, if any, by which 95% of the Unit Value exceeds the aggregate of (i) the average cost to the Company, including commissions, of purchasing two Capital Shares in the market; and (ii) US\$1.00.

**Redemption:**

Any outstanding Preferred Shares will be redeemed by the Company on the Redemption Date at a price per share equal to the lesser of US\$25.00 and the Unit Value. The Company may also redeem Preferred Shares on any Annual Retraction Payment Date at a price per share equal to US\$25.00 to the extent that unmatched Capital Shares have been tendered for retraction under the Special Annual Retraction. See “Details of the Offerings – Certain Provisions of the Preferred Shares – Redemption”.

In addition, the Board of Directors has the right to redeem the Preferred Shares then outstanding at the next Annual Retraction Payment Date if the market value of the Portfolio Shares is US\$20,000,000 or less for two consecutive Valuation Dates. See “Details of the Offerings – Certain Provisions of the Preferred Shares – Automatic Redemption”.

**Priority:**

The Preferred Shares will rank prior to the Capital Shares and the Class J Shares with respect to the payment of dividends, distributions upon a redemption or retraction and distributions upon a dissolution, liquidation or winding-up of the Company.

**Taxation of the Company:**

**Canadian Federal Income Tax Considerations**

At the closing of these offerings, the Company will qualify, and intends to continue to qualify, as a mutual fund corporation under the *Income Tax Act* (Canada). As a mutual fund corporation the Company will be entitled to capital gains refunds in respect of (i) capital gains dividends paid by it; and (ii) qualifying redemptions to the extent the Company has paid or is liable to pay Canadian federal income tax on its capital gains. As a result thereof and of the deduction of expenses in computing its taxable income, the Company should not be subject to any material net Canadian income tax liability.

**Taxation of Shareholders Resident in Canada:**

**Distributions**

Dividends other than capital gains dividends (“Ordinary Dividends”) received by individuals on the Preferred Shares or Capital Shares will be subject to the normal gross-up and dividend tax credit rules applicable to dividends received on shares of a taxable Canadian corporation.

Ordinary Dividends received by corporations, other than specified financial institutions, on the Preferred Shares or Capital Shares will generally be deductible in computing taxable income.

Ordinary Dividends received by specified financial institutions on the Preferred Shares or Capital Shares will be deductible in computing taxable income, provided that certain considerations applicable to term preferred shares are met, such as the 10% ownership restriction.

Ordinary Dividends received by private corporations (and certain other corporations) on the Preferred Shares or Capital Shares will be subject to a refundable tax under Part IV of the *Income Tax Act* (Canada), generally at the rate of 33 $\frac{1}{3}$ %.

Ordinary Dividends received by certain corporations other than private corporations on the Preferred Shares will be subject to a 10% tax under Part IV.I of the *Income Tax Act* (Canada).

The amount of any capital gains dividend received by a holder of Preferred Shares or Capital Shares will be considered to be a capital gain of the holder from the disposition of capital property in the taxation year of the holder in which the capital gains dividend is received.

If a capital gains dividend is paid on the Capital Shares in Capital Shares rather than in cash, the aggregate adjusted cost base of the holder’s Capital Shares will also be increased by the amount of such dividend.

Return of capital payments to a holder of Preferred Shares will not be subject to tax but will reduce the adjusted cost base of the Preferred Shares to the holder.

**Dispositions**

A disposition of a Preferred Share or a Capital Share held as capital property may result in a capital gain or a capital loss to the holder thereof. A redemption or retraction of Preferred Shares or Capital Shares, including where a holder elects to receive Portfolio Shares, is considered a disposition for these purposes.

### **Tax Exempt Purchasers**

Preferred Shares and Capital Shares may be purchased by persons exempt from income tax. The Preferred Shares and the Capital Shares will be foreign property for the purposes of the *Income Tax Act* (Canada).

For a detailed explanation of the Canadian federal income tax considerations, including the considerations for non-residents, see “Canadian Federal Income Tax Considerations”.

### **Summary of Fees, Charges and Expenses Payable by The Company**

The following table contains a summary of the fees, charges and expenses payable by the Company.

<b>Type of Charge</b>	<b>Description including amount/rate</b>
Fee paid to the Agents for selling Capital Shares and Preferred Shares.	US\$0.669 per Capital Share. US\$0.75 per Preferred Share.
Other expenses (including transaction costs, incorporation and organization costs of the Company and expenses of the offerings) incurred by Scotia Capital on behalf of the Company prior to the closing of these offerings.	Scotia Capital will be reimbursed for expenses related to the establishment of the Company and the offerings of the Capital Shares and Preferred Shares hereunder.
Fee paid to the Investment Manager for investment management services.	A monthly fee of $\frac{1}{12}$ of 0.20% of the market value of Portfolio Shares.
Fee paid to Scotia Capital for administration of the ongoing operations of the Company.	A monthly fee of $\frac{1}{12}$ of 0.20% of the market value of the Portfolio Shares and any interest income earned by the Company from time to time (excluding interest earned on any investment of surplus dividends received on the Portfolio Shares and any cash or cash equivalents held by the Company to cover put options written by the Company).
Operating expenses of the Company.	In addition to the fees referred to above, the Company will pay all ordinary expenses incurred in connection with the operation and administration of the Company, including any interest expense on amounts borrowed by the Company. See “The Company – Operating Expenses and Administration” and “The Company – Credit Facility”.  Interest on amounts drawn on the Company’s revolving credit facility will not exceed interest rates charged for credit facilities with comparable terms established with arm’s length parties.
Commissions paid to Scotia Capital for the purchase of Portfolio Shares.	Scotia Capital will purchase, as agent on behalf of the Company, the Portfolio Shares pursuant to a securities purchase agreement and is entitled to receive commissions in respect of such purchases. These commissions will not exceed rates charged to comparable institutional investors. See “Interest of Management and Others in Material Transactions”.

### **Investment Considerations and Risk Factors**

An investment in Capital Shares and Preferred Shares is subject to certain risk factors which prospective investors should consider before purchasing such shares. An investment in Capital Shares or Preferred Shares does not constitute an investment in the Portfolio Shares. The value of the Capital Shares and Preferred Shares will be influenced by factors which are not within the control of the Company, including the financial performance of the issuers of Portfolio Shares, interest rates and other financial market considerations. Holders of Capital Shares will enjoy a form of leverage in that any capital appreciation in the Portfolio Shares after payment of any distributions on the Preferred Shares, redemption or retraction value of the Preferred Shares and expenses will be for the benefit of the holders of Capital Shares. In the event of a decrease in the value of Portfolio Shares, this leverage will work to the disadvantage of the holders of the Capital Shares. If the Unit Value on the Redemption Date is US\$25.00 or less, the Capital Shares will have no value on redemption. As a result of changes in the composition of the Health Care Index and in the weightings of the constituent companies thereof, the Portfolio may not match the exact composition of the Health Care Index at all times. Standard and Poor's Corporation is under no obligation to continue the calculation and dissemination of the Health Care Index. The Company will be relying on the Investment Manager. The value of the Portfolio is denominated in US dollars which may change in value relative to the Canadian dollar. The Company is relying on the Canada Customs and Revenue Agency's published administrative position regarding the tax treatment of option transactions and has not requested or received an advance income tax ruling relating to the application of this administrative position to the Company. The Company may be subject to counterparty risks associated with securities lending. See "Investment Considerations and Risk Factors", "The Company – Distribution Policy", "The Health Care Index" and "Interest of Management and Others in Material Transactions".

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

Registration of interests in and transfers of the Capital Shares and Preferred Shares will be made only through the book-entry only system of The Canadian Depository for Securities Limited ("CDS"). Capital Shares and Preferred Shares must be purchased, transferred and surrendered for retraction or redemption through a participant in the CDS book-entry only system. Beneficial owners of Capital Shares and Preferred Shares will not have the right to receive physical certificates evidencing their ownership of such shares.

## THE COMPANY

SNP Health Split Corp. (the “Company”) was incorporated under the laws of the Province of Ontario on November 29, 2001. See “Description of Share Capital”. The Articles of the Company will be amended prior to closing to create the class A capital shares (the “Capital Shares”) and the class A preferred shares (the “Preferred Shares”). See “Description of Share Capital”. The Company has its registered office and its head office at 40 King Street West, Scotia Plaza, 26th Floor, P.O. Box 4085, Station A, Toronto, Ontario, M5W 2X6, telephone: (416) 945-5255. Information relating to the Company is available at its website at [www.scotiamanagedcompanies.com](http://www.scotiamanagedcompanies.com).

The Company will hold a portfolio (the “Portfolio”) of the common shares (the “Portfolio Shares”) of the companies that make up the *S&P Health Care Sector Index* of the S&P 500 Index (the “Health Care Index”) in order to generate dividend income for the holders of the Company’s Preferred Shares and to enable the holders of the Company’s Capital Shares to participate in any capital appreciation in the Portfolio Shares after payment of operating expenses of the Company. The policy of the Company will be to maintain the Portfolio and not to engage in trading, except to give effect to any change in the composition or weighting of the shares in the Health Care Index and as otherwise described herein.

The Company is considered to be a mutual fund but does not generally operate in accordance with the policies of the Canadian securities regulators applicable to conventional mutual funds.

### Investment Manager

Connor, Clark & Lunn Capital Markets Inc. (the “Investment Manager”) will be retained to act as investment manager of the Company and will, among other things, manage the Portfolio so that the Portfolio tracks the weightings of the constituent companies of the Health Care Index and will write covered call options on a portion of and where appropriate cash covered put options, in respect of, the Company’s Portfolio Shares pursuant to an agreement (the “Investment Management Agreement”) between the Company and the Investment Manager dated January 28, 2002. In consideration for the services provided by the Investment Manager the Company will pay the Investment Manager a monthly fee of  $\frac{1}{12}$  of 0.20 % of the market value of the Portfolio Shares plus applicable taxes. See “Investment Management”.

### Distribution Policy

Holders of the Preferred Shares will be entitled to receive quarterly fixed cumulative preferential distributions equal to US\$0.375 per Preferred Share. On an annualized basis, this would represent a yield on the Preferred Share offering price of 6.0%. Such distributions will consist of capital gains dividends and non-taxable returns of capital and may include ordinary dividends.

The fixed distribution on the Preferred Shares will be funded from the dividends received on the Portfolio Shares together with premiums earned from writing covered call options on a portion of the Portfolio Shares and where appropriate cash covered put options, or on a temporary basis, from borrowings under the Company’s revolving credit facility. The Company will only borrow under its revolving credit facility to the extent that dividends received on the Portfolio Shares together with premiums earned from writing covered call options and where appropriate cash covered put options are in any quarter insufficient to pay the quarterly Preferred Share distributions. The Investment Manager will implement and execute option writing with respect to the Portfolio on behalf of the Company. The Company expects to fund an amount equal to approximately 2.9% of the Portfolio value by writing covered call options on the Portfolio Shares to meet its annual distribution requirements. See “Covered Call Option Writing”. These amounts would generally be distributed as a capital gains dividend on the Preferred Shares.

The Company expects to declare a portion of the fixed quarterly distributions on the Preferred Shares as a capital gains dividend payable in cash. Changes to the Health Care Index which generate capital gains for the Company may result in the Company designating a larger portion of a Preferred Share distribution as a capital gains dividend. See “Details of the Offerings – Certain Provisions of the Preferred Shares” and “Canadian Federal Income Tax Considerations – Tax Treatment of Dividends on Preferred Shares and Capital Shares.”

It is not expected that holders of the Capital Shares will receive any dividends in the ordinary course. If dividends on the Portfolio Shares exceed the amount of the fixed Preferred Share distributions and all expenses of the Company, the excess may be paid as dividends on the Capital Shares or reinvested by the Company in additional Portfolio Shares

or in interest bearing debt securities for the benefit of holders of Capital Shares, as determined by the Board of Directors of the Company.

In addition, if the Company realizes capital gains on the sale of Portfolio Shares and would be liable to pay tax thereon, for example, as a result of changes in the Health Care Index, the Company may declare a capital gains dividend on the Capital Shares payable in cash and/or in Capital Shares. Such dividend will minimize any tax payable by the Company and, as such, should benefit the Company and its shareholders. If the Company pays such dividend in Capital Shares, the cash which would otherwise have been distributed or used to pay tax will remain invested in Portfolio Shares and will ultimately be available to fund distributions on the Preferred Shares or may appreciate for the benefit of the holders of Capital Shares. A capital gains dividend paid in Capital Shares will increase the aggregate adjusted cost base of Capital Shares to the holders thereof. Immediately following payment of such dividend in Capital Shares, the number of Capital Shares outstanding will be consolidated pursuant to the Company's articles such that the number of Capital Shares outstanding will be equal to the number of Capital Shares outstanding immediately prior to such payment.

## The Portfolio

The Company will invest its funds in the Portfolio Shares. The Portfolio will consist of common shares of the constituent companies of the Health Care Index in accordance with the weightings thereof. Pursuant to an agreement (the "Securities Purchase Agreement") dated as of January 28, 2002 between the Company and Scotia Capital Inc. ("Scotia Capital"), Scotia Capital has agreed to purchase, as agent for the benefit of the Company, the Portfolio Shares, for an aggregate cost to the Company estimated at US\$148,699,600 (or US\$45.06 per Unit). Through Scotia Capital, the Company will purchase Portfolio Shares in the market on commercial terms or from non-related parties with whom Scotia Capital and the Company deal at arm's length as soon as reasonably possible following closing. Based on the liquidity of the common shares to be included in the Portfolio, the Investment Manager expects that the acquisition of the Portfolio Shares should take two days. Any expenses, including commission, incurred by Scotia Capital on behalf of the Company will be for the account of the Company.

The table below sets out, as at January 14, 2002, the following information for the companies included in the Health Care Index: the weighting of the shares in the Health Care Index; the closing price of such shares; the compound annual growth rate ("CAGR") in the price of the securities for the period from January 16, 1997 to January 14, 2002 (unless otherwise noted); and the 90-day volatilities as of January 14, 2002 in the price of the securities.

<u>Health Care Index Ranking</u>	<u>Company Name</u>	<u>Index Weighting<sup>(1)</sup></u>	<u>Closing Price (US\$)</u>	<u>5 Year CAGR</u>	<u>90-Day Volatility</u>
1	Pfizer Inc. . . . .	17.051%	40.41	23.8%	24%
2	Johnson & Johnson . . . . .	12.097%	59.17	19.6%	21%
3	Merck & Co., Inc. . . . .	8.960%	58.65	8.6%	29%
4	Bristol-Myers Squibb Company . . . . .	6.385%	49.06	12.0%	32%
5	Abbott Laboratories . . . . .	5.808%	55.77	17.0%	23%
6	Eli Lilly and Company . . . . .	5.794%	77.05	14.4%	24%
7	American Home Products Corporation . . . . .	5.640%	63.47	16.1%	24%
8	Medtronic, Inc. . . . .	3.941%	48.61	24.6%	29%
9	Amgen Inc. . . . .	3.884%	56.26	32.3%	42%
10	Pharmacia Corporation . . . . .	3.547%	40.05	1.6%	32%
11	Schering-Plough Corporation . . . . .	3.447%	34.20	15.6%	31%
12	Baxter International Inc. . . . .	2.097%	53.02	19.8%	27%
13	Cardinal Health, Inc. . . . .	1.882%	62.36	18.1%	30%
14	UnitedHealth Group Incorporated . . . . .	1.513%	72.65	26.7%	23%
15	HCA Inc. . . . .	1.431%	41.89	1.6%	27%
16	Tenet Healthcare Corporation . . . . .	1.411%	65.22	21.8%	27%
17	Immunex Corporation . . . . .	1.000%	27.66	74.7%	62%
18	Forest Laboratories, Inc. . . . .	0.953%	79.65	58.1%	32%
19	Guidant Corporation . . . . .	0.937%	44.90	25.9%	36%
20	CIGNA Corporation . . . . .	0.905%	94.40	14.4%	33%

<b>Health Care Index Ranking</b>	<b>Company Name</b>	<b>Index Weighting<sup>(1)</sup></b>	<b>Closing Price (US\$)</b>	<b>5 Year CAGR</b>	<b>90-Day Volatility</b>
21	MedImmune, Inc. ....	0.763%	46.39	80.0%	53%
22	Genzyme Corporation ....	0.752%	52.57	33.4%	52%
23	Stryker Corporation ....	0.713%	54.27	28.9%	27%
24	McKesson Corporation ....	0.702%	35.86	6.5%	30%
25	King Pharmaceuticals, Inc. <sup>(2)</sup> ....	0.670%	40.26	83.1%	40%
26	Allergan, Inc. ....	0.632%	72.17	33.7%	29%
27	Boston Scientific Corporation ....	0.595%	22.68	-7.7%	41%
28	Becton, Dickinson and Company ....	0.588%	33.84	8.9%	35%
29	Chiron Corporation ....	0.549%	43.69	17.4%	43%
30	Biogen, Inc. ....	0.548%	56.02	20.9%	33%
31	Biomet, Inc. ....	0.537%	29.98	34.3%	34%
32	WellPoint Health Networks Inc. ....	0.521%	122.60	28.5%	28%
33	Applera Corporation-Applied Biosystems Group <sup>(3)</sup> ....	0.490%	35.05	11.3%	55%
34	St. Jude Medical, Inc. ....	0.438%	75.60	15.4%	31%
35	Zimmer Holdings, Inc. <sup>(4)</sup> ....	0.413%	31.25	8.9%	31%
36	AmerisourceBergen Corporation ....	0.413%	59.50	11.3%	32%
37	HealthSouth Corporation ....	0.359%	13.31	-8.6%	45%
38	Aetna Inc. ....	0.342%	35.72	-0.3%	36%
39	Health Management Associates, Inc. ....	0.301%	18.50	10.6%	30%
40	Watson Pharmaceuticals, Inc. ....	0.219%	30.45	6.5%	92%
41	C.R. Bard, Inc. ....	0.198%	52.67	15.4%	42%
42	Manor Care, Inc. ....	0.157%	22.87	-3.9%	44%
43	Bausch & Lomb Incorporated. ....	0.150%	40.83	5.6%	39%
44	Humana Inc. ....	0.143%	12.95	-6.1%	50%
45	Quintiles Transnational Corp. ....	0.124%	15.70	-15.9%	51%

(1) During the 12-month period immediately preceding the date of this prospectus, none of the companies whose shares are included in the Health Care Index had a weighting in such index in excess of 10% other than Pfizer Inc. (maximum: 19.08%), Johnson & Johnson (maximum: 12.36%) and Merck & Co., Inc. (maximum: 12.57%).

(2) Price data commencing as of June 25, 1998.

(3) Price data commencing as of May 6, 1999.

(4) Price data commencing as of August 8, 2001.

The policy of the Company will be to maintain the Portfolio and not engage in trading, except to ensure that the Portfolio tracks the composition of the Health Care Index and the weightings of the constituent companies thereof or as otherwise disclosed herein. From time to time the Company may invest in shares or units of an exchange-traded index fund designed to track the Health Care Index if approved by the Board of Directors of the Company. In addition, Portfolio Shares may also be sold to fund the retraction or redemption of any Capital Shares or Preferred Shares, upon the exercise of a call option written by the Company or to meet obligations of the Company in respect of extraordinary liabilities. As a result of changes in the composition of the Health Care Index and in the weightings of the constituent companies thereof, the Portfolio may not match the exact composition of the Health Care Index at all times. Although the Investment Manager will attempt to ensure that the Portfolio tracks the Health Care Index, there can be no assurance that it will be able to do so. If the Health Care Index ceases to be maintained by Standard and Poor's Corporation ("S&P"), the Company may take such action as is determined by the Board of Directors of the Company in accordance with its investment strategy including replacing the Health Care Index with a replacement or substitute index. Replacing the Health Care Index would require the majority approval of the holders of the Capital Shares and the holders of the Preferred Shares.

The Portfolio Shares will be held by The Royal Trust Company (the "Custodian") pursuant to the provisions of the Custodian Agreement described under "Auditors, Custodian, Transfer Agent and Registrar". Through the Custodian, the Company will hold and dispose of such shares and the Company will pay distributions as described herein.

In order to generate additional returns, the Company may lend Portfolio Shares in appropriate circumstances to securities borrowers acceptable to the Company pursuant to the terms of a securities lending agreement between the Company and any such borrower (the "Securities Lending Agreement") provided the prior approval of the independent directors of the Company has been obtained. Under the Securities Lending Agreement: (i) the borrower

will pay to the Company a negotiated securities lending fee and will make compensation payments to the Company equal to any distributions received by the borrower on the securities borrowed; (ii) the securities loans must qualify as “securities lending arrangements” for the purposes of the *Income Tax Act* (Canada); and (iii) the Company will receive prescribed collateral security. The Company will lend Portfolio Shares only in accordance with the provisions of National Instrument 81-102.

Commencing on or after 20 business days prior to the Redemption Date, the Company will begin the orderly liquidation of the Portfolio.

### **Voting Rights in the Portfolio**

Holders of the Capital Shares and the Preferred Shares will have no voting rights in respect of the Portfolio Shares. From time to time, the Board of Directors will determine whether or not to vote the Portfolio Shares and, if so, how such Portfolio Shares will be voted.

### **Credit Facility**

The Company intends to establish a revolving credit facility (the “Revolving Credit Facility”) with a Canadian chartered bank (the “Bank”) which may be used by the Company to fund the payment of a portion of the fixed distribution on the Preferred Shares on a temporary basis if and to the extent that premiums generated from option writing are in any quarter insufficient to pay the quarterly Preferred Share distributions. The Company expects to repay any amounts borrowed under the Revolving Credit Facility within six months of the date of such borrowing. See “The Company – Distribution Policy”. To the extent that such credit facility is used, the Company will pledge Portfolio Shares as collateral for amounts borrowed thereunder.

### **Operating Expenses and Administration**

The Company will be responsible for all of its operating expenses including any interest expense on amounts borrowed by the Company under the Revolving Credit Facility. It is anticipated that the operating expenses of the Company for its first year of operations (excluding the fee payable under the Investment Management Agreement and the Administration Agreement) will be approximately US\$150,000 (US\$0.05 per Unit).

The Company and Scotia Capital (in its capacity as administrator of the Company (the “Administrator”)) have entered into an administration agreement (the “Administration Agreement”) dated as of January 28, 2002 which has a term expiring upon the redemption or retraction of all Capital Shares and Preferred Shares. Under the Administration Agreement, the Administrator will, among other things, administer the ongoing operations of the Company.

In consideration for the services provided by the Administrator, the Company will pay the Administrator a fee (the “Administration Fee”) of: (i) a monthly fee of  $\frac{1}{12}$  of 0.20% of the market value of the Portfolio Shares; and (ii) interest income earned by the Company from time to time (excluding interest earned on any investment of surplus dividends received on the Portfolio Shares and any cash or cash equivalents held by the Company to cover put options written by the Company).

Holders of Capital Shares and Preferred Shares, by a three-quarters majority vote at a meeting called and held for such purpose, may cause the Administration Agreement to be terminated upon not less than six months’ notice. On such termination, the Administrator will be entitled to a termination payment from the Company equal to the average monthly fee paid to the Administrator for the three months immediately preceding the date of termination multiplied by the number of months remaining in the term of the Administration Agreement. The Administration Agreement may also be terminated by the Company if the Administrator has committed certain events of bankruptcy or insolvency or is in material breach of the terms thereof and such breach has not been cured within 60 days after notice thereof has been given to the Administrator. The Administrator will not be entitled to a termination payment under such circumstances.

## **THE HEALTH CARE INDEX**

### **General**

The *S&P Health Care Sector Index* of the S&P 500 Index (the “Health Care Index”) is a market capitalization weighted group of the companies in the S&P 500 Index that are involved in the business of health care related products or services. The S&P 500 Index is a widely used market-value weighted index consisting of 500 stocks chosen for

their company’s market capitalization, liquidity and sector representation. Companies included in the Health Care Index are selected from the S&P 500 Index using the Global Classification Standard (“GICS”), a standard that is jointly maintained by S&P and MSCI, which assigns companies to an industry sector according to the definition of their principal business activity as determined by S&P and MSCI. Revenues are a significant factor in defining principal business activity; however, earnings analysis and market perception are also important criteria for classification. The sub-industry groups included in the Health Care Index are as follows: Health Care Equipment, Health Care Supplies, Health Care Distributors & Services, Health Care Facilities, Managed Health Care, Biotechnology, and Pharmaceuticals.

The S&P 500 Index was created and is maintained by S&P, who reserves the right to include or exclude any stock, or make adjustments to the weighting thereof, including within the Health Care Index at its sole discretion. “Standard&Poor’s®” and “S&P®” are trade-marks of The McGraw-Hill Companies, Inc. These marks will be licensed for use by the Company.

S&P is responsible for the construction and maintenance of the S&P 500 Index including the composition of the Health Care Index and the index composition policy was established by the Index Committee of S&P. The “Criteria for Inclusion” are continually reviewed by S&P and may be subject to change at any time. The S&P Index Committee examines the following general criteria for S&P U.S. index membership: trading analysis, liquidity, ownership, fundamental analysis, market capitalization and sector representation.

### Dividends

Based on the last 12 months dividends, as of January 25, 2002, the dividend yield of the companies in the Health Care Index was approximately 1.1%. **This dividend information is historical and is not intended to be, nor should it be construed to be, an indication as to the future dividend levels of the Portfolio Shares.**

### Return Performance

The following chart shows the Health Care Index price appreciation for the 5 year period ending January 25, 2002.

**Health Care Index – Price Appreciation  
January 24, 1997 – January 25, 2002**



**The above information is historical and is not intended to be, nor should it be construed to be, an indication of the future return on the Portfolio Shares.**

The closing level of the Health Care Index on January 25, 2002 was 379.99.

## Use of the Health Care Index

The Capital Shares and Preferred Shares are not sponsored, endorsed, sold or promoted by S&P. S&P makes no representation, condition or warranty, express or implied, to the owners of Capital Shares and Preferred Shares or any member of the public regarding the advisability of investing in securities generally or in the Capital Shares and Preferred Shares particularly, or the ability of the Health Care Index to track general stock market performance or any other economic factors. S&P's only relationship to the Company is the licensing of certain trade-marks and trade names of S&P and/or of the Health Care Index, which is determined, composed and calculated by S&P without regard to the Company or the holders of the Capital Shares and Preferred Shares. S&P has no obligation to take the needs of the Company or the holders of the Capital Shares and Preferred Shares into consideration in determining, composing or calculating the Health Care Index. S&P is not responsible for and has not participated in the determination of the timing of, prices at, or quantities of the Capital Shares and Preferred Shares to be issued or in the determination or calculation of the equation by which the Capital Shares and Preferred Shares are to be converted into cash. S&P has no obligation or liability in connection with the administration, marketing or trading of the Capital Shares and Preferred Shares.

**S&P does not guarantee the accuracy and/or the completeness of the Health Care Index or any data included therein and S&P shall have no liability for any errors, omissions or interruptions therein. S&P makes no warranty, condition or representation, express or implied, as to results to be obtained by the Company, holders of the Capital Shares and Preferred Shares, or any other person or entity from the use of the Health Care Index or any data included therein. S&P makes no express or implied warranties, representations or conditions, and expressly disclaims all warranties or conditions of merchantability, merchantable quality or fitness for a particular purpose or use and any other express or implied warranty or condition with respect to the Health Care Index or any data included therein. Without limiting any of the foregoing, in no event shall S&P have any liability for any special, punitive, indirect, or consequential damages (including lost profits), even if notified of the possibility of such damages.**

S&P is under no obligation to continue the calculation and dissemination of the Health Care Index. Neither the Company nor the Agents will have any responsibility for the calculation and dissemination of the Health Care Index or any errors or omissions therein.

All information contained herein relating to the Health Care Index is derived from publicly available sources and is presented herein in summary form. As such, neither the Company nor the Agents assume any responsibility for the accuracy or completeness of such information.

## COVERED CALL OPTION WRITING

### General

The writing of call options by the Company will generally involve the selling of call options pro rata, subject to liquidity, across the entire Portfolio. The holder of a call option sold by the Company will have the option, exercisable during a specific time period to purchase the securities underlying the option from the Company at a specified price per security known as the "strike price". These call options will be listed and will trade on a recognized exchange. Because call options will be written only in respect of Portfolio Shares and because the Company will not sell securities subject to an outstanding option, the Company will always have the underlying securities to deliver if the option is exercised. This is referred to as having sold a "covered call".

By selling call options, the Company will receive option premiums, which are generally paid within one business day of the writing of the option. If at any time during the term of a call option or at expiry, the market price of the underlying securities is above the strike price, the holder of the option may exercise the option and the Company will be obligated to sell the securities to the holder at the strike price per security. If, however, the option is out-of-the-money at expiration of the call option, the holder of the option will likely not exercise the option, the option will expire and the Company will retain the underlying security. In each case, the Company will retain the option premium. See "Call Option Pricing". When a covered call option is exercised the Company will deliver the shares subject to such option and will receive an amount equal to the strike price in cash. In this situation, the Company, in lieu of repurchasing the underlying security and selling additional covered call options against that security, may instead hold

the cash proceeds and sell a cash covered put option on that security. Economically this has a similar effect as holding the underlying security and selling a covered call option on that security. Premiums received on the sale of cash covered put options are comparable to the premiums received for selling covered call options.

The amount of option premium depends upon, among other factors, the volatility of the price of the underlying security and the strike price of the option. Generally speaking, the higher the volatility, the higher the option premium while the higher the strike price of a call option the lower the premium. See “Call Option Pricing”.

**If a call option is written on a Portfolio Share, the amounts that the Company will be able to realize on the security during the term of the call option will be limited to the dividends received prior to the exercise of the call option during such period plus an amount equal to the sum of the strike price and the premium received from writing the option. In essence, the Company will forego potential returns resulting from any price appreciation of the security underlying the option above the strike price in favour of the certainty of receiving the option premium.**

### Call Option Pricing

Many investors and financial market professionals price call options based on the Black-Scholes Model. In practice, however, actual option premiums are determined in the marketplace and there can be no assurance that the values generated by the Black-Scholes Model can be attained in the market.

Under the Black-Scholes Model (modified to include dividends), the primary factors which affect the option premium received by the seller of a call option are the following:

<i>the volatility of the price of the underlying security</i>	The volatility of the price of a security measures the tendency of the price of the security to vary during a specified period. The higher the price volatility, the more likely that the price of that security will fluctuate (either positively or negatively) and the greater the option premium. Price volatility is generally measured in percentage terms on an annualized basis, based on price changes during a period of time immediately prior to or “trailing” the date of calculation.
<i>the strike price</i>	Typically expressed as the percentage difference between the strike price and the market price of the underlying security at the time the option is written and is referred to as “in” or “out of the money”. The smaller the positive difference (or the larger the negative difference), the greater the option premium.
<i>the term of the option</i>	The longer the term, the greater the call option premium.
<i>the “risk-free” or benchmark interest rate in the market in which the option is issued</i>	The higher the risk-free interest rate, the greater the call option premium.
<i>the dividends expected to be paid on the underlying security during the relevant term</i>	The greater the dividends, the lower the call option premium.

The table below illustrates the sensitivity of annualized option premiums from writing call options on securities to: (i) the average volatility of securities; and (ii) the strike price. The option premiums are expressed as a percentage of the security price and have been calculated using a Black-Scholes Model (modified to include dividends).

**The information set forth below is for illustrative purposes only and should not be construed as a forecast or projection. Although many investors and financial market professionals price options based on the Black-Scholes Model, in practice actual option premiums are determined in the marketplace and no assurance can be given that the returns shown in this sensitivity analysis will ever be available or realized.**

## Annualized Premiums from Writing Covered Call Options

Strike Price (% out-of-the-money)	Average Volatility of Individual Shares in the Portfolio				
	20%	30%	40%	50%	60%
4% .....	10.2%	22.1%	34.8%	48.0%	61.4%
3% .....	13.4%	26.0%	39.2%	52.6%	66.1%
2% .....	17.3%	30.5%	43.9%	57.4%	71.0%
1% .....	21.9%	35.4%	49.0%	62.6%	76.2%
0% .....	27.4%	41.0%	54.5%	68.1%	81.6%

Assumptions:

- (1) all options are exercisable only at maturity and have a term of 29 days (for illustrative purposes only – this assumption is not necessarily indicative of the terms for which and extent to which options will be written by the Company);
- (2) the risk-free or benchmark interest rate equals 1.7% and the return from the dividends paid is 1.12%; and
- (3) annualized premium calculated by multiplying monthly premium by twelve.

Preferred Share distributions will be funded from the dividends received on the Portfolio Shares together with premiums earned from writing options on a portion of the Portfolio Shares. The Company expects to fund an amount equal to approximately 2.9% of the Portfolio value by writing covered call options on the Portfolio Shares to meet the Company's annual distribution requirements. The table below represents an assessment of the sensitivity of the percentage of the Portfolio on which the Company must write call options in order to meet the Company's annual distribution requirements to: (i) the average volatility of the Portfolio Shares; and (ii) the strike price.

### Percentage of Portfolio on which Call Options must be Written to Meet the Distribution Requirement

Strike Price (% out-of-the-money)	Average Volatility of Individual Shares in the Portfolio				
	20%	30%	40%	50%	60%
4% .....	28.5%	13.2%	8.4%	6.1%	4.7%
3% .....	21.7%	11.2%	7.4%	5.5%	4.4%
2% .....	16.8%	9.6%	6.6%	5.1%	4.1%
1% .....	13.3%	8.2%	5.9%	4.7%	3.8%
0% .....	10.6%	7.1%	5.3%	4.3%	3.6%

Assumptions:

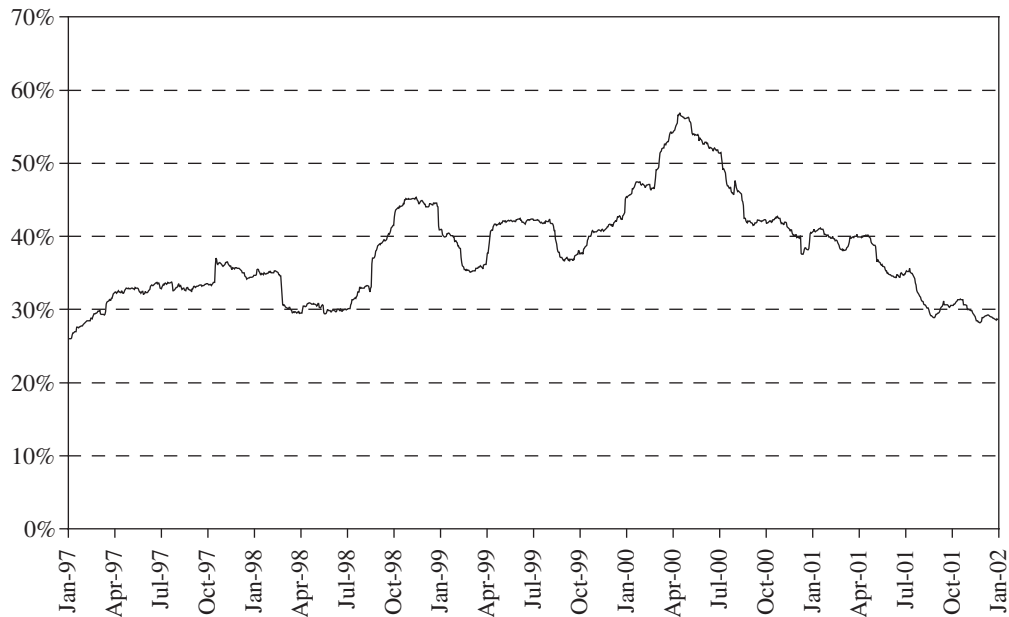
- (1) analysis based on a Black-Scholes Model (modified to include dividends);
- (2) total proceeds of the offerings are US\$156,090,000;
- (3) all options are exercisable only at maturity and have a term of one month (for illustrative purposes only – this assumption is not necessarily indicative of the terms for which and extent to which options will be written by the Company);
- (4) the risk-free or benchmark interest rate equals 1.7% and the average return from the dividends paid on the securities is 1.12% and is subject to a 15% withholding tax;
- (5) there are no realized capital gains or losses on the Portfolio Shares for the period during which the call options are outstanding; and
- (6) annual expenses for the Company approximate 0.53% of the market value of the Portfolio Shares.

### Volatility History

The historical average of the trailing 90 day volatility (expressed in percentage terms on an annualized basis) of the Portfolio Shares, for the five years ended January 14, 2002 is as follows:

<u>Low</u>	<u>High</u>	<u>Average</u>
26.0%	56.9%	37.9%

### Weighted Average 90-day Trailing Price Volatility of All Securities in the Portfolio



**The information set forth above is historical and is not intended to be, nor should it be construed as, an indication as to future volatility levels of the securities in the Portfolio.**

#### Limitations on Use of Options

The Company will only purchase or sell options as permitted under National Instrument 81-102 (“NI 81-102”) of the Canadian Securities Administrators (or any successor policy, rule or national instrument).

The Company will write a call option in respect of a security only if such security is actually held by the Company at the time the option is written. The Company will not dispose of any security included in the Portfolio that is subject to a call option written by the Company unless such option has either terminated or expired. The Company will write put options in respect of a security only if (i) the Company is permitted to invest in such security and (ii) so long as the options are exercisable, the Company continues to hold cash or cash equivalents sufficient to acquire the securities underlying the options at the aggregate strike price of such options.

In addition to writing covered call options and where appropriate cash covered put options, the Company may also purchase call options and put options from time to time in order to close out existing options written by the Company. The Company may do this where there has been a change in the Health Care Index or to effect a retraction where the Company has options outstanding.

### INVESTMENT MANAGEMENT

#### Investment Manager

The Investment Manager is part of the Connor, Clark & Lunn group of companies, which also includes Connor, Clark & Lunn Investment Management Ltd., Connor, Clark & Lunn Private Capital Ltd., The CC&L Financial Services Group, Baker Gilmore & Associates Inc., PCJ Investment Counsel Ltd., Scheer Rowlett & Associates Investment Management Ltd., WorldInvest International Inc., Banyan Capital Partners Management Partnership and Tera Inc. (collectively, the “CC&L Group”). The CC&L Group, with approximately Cdn\$16 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 Investment Manager is the manager of the Connor, Clark & Lunn PRINTS Trust, which completed an initial public offering of Cdn\$103 million in December, 2001 and is investment manager to SNP Split Corp., a mutual fund corporation with approximately US\$287 million in assets invested in shares of the companies that make up the S&P 100 Index. The principals of the Investment Manager who will be providing advisory services to the Company

are Robert T. Kidd and Philip K. Gow. In addition to providing investment management services for SNP Split Corp. since May 2001, Mr. Kidd and Mr. Gow have provided advice with respect to equity forward strategies to each of Triax CaRTS Trust and Triax CaRTS Technology Trust since their inception. The combined net asset value of these two investment vehicles is approximately Cdn\$260 million.

Mr. Kidd has worked in the investment industry for a number of years: as a managing director of Brenton Reef Capital Inc. (which was acquired by CC&L Capital Markets Partnership in April 2001) since March 1997 and the President and Chief Executive Officer and a director of Connor, Clark & Lunn Capital Markets Inc. since April 2001. Mr. Kidd attended Queen’s University in Kingston, Ontario.

Mr. Gow was an investment counsel/portfolio manager for Triax Investment Management Inc. from November 1998 to March 2001 and has been a managing director of Brenton Reef Capital since 1997 and a director and investment manager of Connor, Clark & Lunn Capital Markets Inc. since April 2001. Prior to 1997, he was an investment manager for Interquest International in London, England. He holds a Masters of Business Administration degree and the Chartered Financial Analyst designation.

The Investment Manager is wholly owned by CC&L Capital Markets Partnership, a partnership formed under the laws of Ontario.

**Directors and Officers of the Investment Manager**

The name and municipality of residence of the directors and officers of the Investment Manager are:

<u>Name and Municipality</u>	<u>Position with Manager</u>	<u>Principal Occupation</u>
ROBERT T. KIDD ..... Toronto, Ontario	Director, President and Chief Executive Officer	President, Chief Executive Officer and Director, Connor, Clark & Lunn Capital Markets Inc.
PHILIP K. GOW ..... Toronto, Ontario	Director and Investment Manager	Director and Investment Manager, Connor, Clark & Lunn Capital Markets Inc.
MICHAEL W. FREUND ..... Toronto, Ontario	Director and Chief Financial Officer	Partner, Connor, Clark & Lunn Financial Services Group

**Investment Management Agreement**

Under the Investment Management Agreement, the Investment Manager is required to act at all times on a basis which is fair and reasonable to the Company, to act honestly and in good faith with a view to the best interests of the shareholders of the Company and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent portfolio manager would exercise in comparable circumstances. The Investment Management Agreement provides that the Investment Manager shall not be liable in any way for any default, failure or defect in any of the securities of the Portfolio, nor shall it be liable if it has satisfied the duties and standard of care, diligence and skill set forth above. The Investment Manager will, however, incur liability in cases of wilful misfeasance, bad faith, negligence or breach of its obligations under the Investment Management Agreement.

The Investment Management Agreement, unless terminated as described below, will continue in effect until all the Capital Shares and Preferred Shares have been retracted or redeemed. The Company may terminate the Investment Management Agreement on 60 days prior written notice and immediately if the Investment Manager has committed certain events of bankruptcy or insolvency or is in material breach or default of the provisions thereof.

The Investment Manager is entitled to fees for its services under the Investment Management Agreement as described under “The Company – Investment Manager” and will be reimbursed for all reasonable costs and expenses incurred by the Investment Manager on behalf of the Company.

In addition, the Investment Manager and each of its directors, officers and employees will be indemnified by the Company for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against the Investment Manager or any of its officers, directors or

employees in the exercise of its duties as investment manager, except those resulting from the Investment Manager's wilful misconduct, bad faith, negligence or breach of its obligations under the Investment Management Agreement.

## DESCRIPTION OF SHARE CAPITAL

The authorized capital of the Company consists of an unlimited number of class A capital shares (the "Capital Shares"), an unlimited number of class A preferred shares (the "Preferred Shares"), an unlimited number of class B, class C, class D and class E capital shares issuable in series, an unlimited number of class B, class C, class D and class E preferred shares, issuable in series, and an unlimited number of class J shares (the "Class J Shares"). The classes of capital shares other than the Capital Shares and the classes of preferred shares other than the Preferred Shares are collectively referred to as the "subsequent classes".

The attributes of the Capital Shares and the Preferred Shares offered hereby are described below under "Details of the Offerings". The Company will not issue any further Capital Shares or Preferred Shares except as otherwise provided herein.

### Subsequent Classes of Shares

The subsequent classes are issuable in series. Subject to the Company's articles, the Board of Directors is authorized to fix, before issuance, the designation, rights, privileges, restrictions and conditions attaching to the shares of each series. Except with respect to matters as to which the holders of the capital shares and preferred shares are entitled by law to vote as a class, the holders of capital shares and preferred shares will not be entitled to vote at meetings of shareholders.

The Company may, in the future, undertake offerings of shares of the subsequent classes. The net proceeds from the sale of a subsequent class of capital shares and a subsequent class of preferred shares would be used to acquire a separate portfolio of shares. The holders of the Capital Shares and Preferred Shares offered hereby will have no rights in respect of such separate portfolio.

### Class J Shares

The holders of the Class J Shares are entitled to receive dividends, if, as and when declared by the Board of Directors of the Company. However, holders of Class J Shares are not entitled to receive any dividends on the Class J Shares at any time when there are any Capital Shares or Preferred Shares outstanding.

The holders of the Class J Shares will be entitled to one vote per share. The Class J Shares of the Company are retractable at any time. For retractions occurring at a time when any Capital Shares or Preferred Shares are outstanding, the retraction price will be US\$1.00 per share; for other retractions, the retraction price will be based on the net asset value of the Company. The Class J Shares are redeemable by the Company at any time for a redemption price equal to US\$1.00 per share, being the amount paid-up thereon. The Class J Shares rank subsequent to the Capital Shares and the Preferred Shares with respect to dividends and distributions on retractions and redemptions and distributions on the dissolution, liquidation or winding-up of the Company. Each Class J Share entitles the holder thereof to participate in the distribution of the remaining net assets of the Company on a dissolution, liquidation or winding-up of the Company.

SNP Health Split Holdings Corp. and Scotia Capital each own 50% of the issued and outstanding Class J Shares. See "Principal Shareholders."

## DETAILS OF THE OFFERINGS

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

### Unit Value

A "Unit" is considered to consist of two Capital Shares and one Preferred Share.

"Unit Value" is defined as:

- (a) the amount received by the Company on the disposition of that number of Portfolio Shares represented by the Unit's pro rata share of the Portfolio Shares less the cost of closing out the Unit's pro rata share of

unexpired options written by the Company. Such amount may vary from the trading price of the Portfolio Shares and options on the relevant Valuation Date (as defined below) as the Company may dispose of Portfolio Shares and close out such options on or after such date. In respect of any retraction by a holder and the calculation of Unit Value under this paragraph, the number of Portfolio Shares of an issuer to be disposed of and the number of options to be closed out will be rounded down to the nearest whole share or option; or

- (b) in the event that the Investment Manager determines that it is not practicable to sell a pro rata share of the Portfolio Shares (for example, where a relatively small number of shares are tendered for cash retraction), the Company may fund such retractions in whole or in part out of cash on hand and/or sell a sufficient number of Portfolio Shares in a manner that will not materially alter the composition of the Portfolio such that the cash paid and/or the proceeds received on the sale of such Portfolio Shares equals the aggregate value of the pro rata share of the Portfolio Shares represented by the Units surrendered for cash retraction. Such aggregate value will, if Portfolio Shares are not sold, be calculated using, and paid on the basis of, the closing prices for the Portfolio Shares on the New York Stock Exchange (the “NYSE”) or the Nasdaq Stock Market (the “Nasdaq”) (as the case may be) on the trading day immediately preceding the relevant Valuation Date (as defined below); or, if no trading in a Portfolio Share occurred on such day on the NYSE or Nasdaq (as the case may be), the closing price for such Portfolio Share on such other exchange or market as the Investment Manager may select on such day; or, if no closing price is available from any exchange or market for Portfolio Shares, the average of the bid and ask prices for such shares at close of trading on the NYSE or Nasdaq on such day. Where Portfolio Shares are sold the value of such shares will be calculated on the basis of the amount received per share on such disposition; or
- (c) in the event that the Investment Manager determines that it is not practicable to close out a pro rata share of the unexpired options written by the Company (for example, where a relatively small number of shares are tendered for cash retraction), the Company may fund such retractions in whole or in part out of cash on hand and/or close out unexpired options in a manner that will not materially alter the composition of the Portfolio such that the cash paid and/or the proceeds received from the closing out of such options equals the aggregate value of the pro rata share of the options represented by the Units surrendered for cash retraction. Such aggregate value will, if options are not closed out, be calculated using, and paid on the basis of, the closing prices in respect of such options on the Chicago Board Options Exchange (the “Chicago Exchange”) or the American Stock Exchange (the “AMEX”) (as the case may be) on the trading day immediately preceding the relevant Valuation Date (as defined below); or, if no trading in such options occurred on such day on the Chicago Exchange or AMEX (as the case may be), the closing price for such options on such other exchange or market as the Investment Manager may select on such day; or, if no closing price is available from any exchange or market for such options, the average of the bid and ask prices for such options at close of trading on the Chicago Exchange or the AMEX on such day. Where options are closed out the value of such options will be calculated on the basis of the amount received per option on such disposition;

less, in each case, brokerage fees, commissions and all other transaction costs relating to such sale plus (minus) an amount (the “Residual Amount”) equal to the pro rata share of the amount by which the value of the other assets of the Company (excluding any refundable taxes not then available to the Company) exceed (are less than) the liabilities (including any extraordinary liabilities) of the Company as at the relevant Valuation Date, all as determined by the Board of Directors of Company. For greater certainty, the Preferred Shares will not be treated as liabilities for these purposes.

If, on the Redemption Date on February 11, 2009, the Company is entitled to a refund of refundable taxes but such refund is not immediately available, the Company will either defer payment of a portion of the redemption price until the refund is received by the Company or take steps to monetize or otherwise convert the refund into cash. In any event, for purposes of calculating the Residual Amount for redemptions on the Redemption Date, any refundable taxes not then available to the Company will be treated as an asset equal to the realizable value thereof as determined by the Board of Directors.

If it is not possible to sell Portfolio Shares or close out unexpired options as aforesaid due to the cessation or suspension of trading of one or more of the Portfolio Shares or options on any stock exchange or market on which such Portfolio Shares or options are normally traded, the Company will sell those Portfolio Shares or options which

can then be lawfully sold and the applicable portion of such proceeds from such sale will be paid on the Retraction Payment Date and the remaining Portfolio Shares and options required to be sold to fund the cash retraction of the relevant shares will be sold by the Company as soon as possible following the resumption of trading of such Portfolio Shares and options and the applicable portion of such proceeds therefrom paid within five business days following such sale.

The Unit Value will be calculated once each week, other than the last week of each month, in which case the Unit Value will be calculated on the last day of the month. Such information will be provided by the Administrator to holders of the Preferred Shares and Capital Shares on request by calling collect (416) 945-5255 or through the Internet at [www.scotiamanagedcompanies.com](http://www.scotiamanagedcompanies.com).

## **Certain Provisions of the Capital Shares**

### ***Investment Objective***

The Capital Shares will provide their holders with a leveraged investment, the value of which is linked to changes in the market price of the common shares of the companies that make up the Health Care Index. The Health Care Index is a market capitalization weighted group of the companies in the S&P 500 Index that are involved in the business of health care related products or services. See “The Company – The Portfolio” and “The Health Care Index”. Holders of Capital Shares will be entitled on redemption to the benefit of all capital appreciation in the market price of the Portfolio Shares after payment of operating expenses of the Company and the fixed distribution on the Preferred Shares. The fixed distribution on the Preferred Shares will be funded from the cash dividends received on the Portfolio Shares together with premiums earned from writing covered call options on a portion of the Portfolio Shares and where appropriate writing cash covered put options or on a temporary basis from borrowings under the Company’s Revolving Credit Facility. If the Unit Value is less than or equal to US\$25.00 on the Redemption Date, the Capital Shares will have no value on redemption. See “Investment Considerations and Risk Factors” and “The Company – Distribution Policy”.

### ***Issue of Additional Capital Shares***

The Company will not issue any additional Capital Shares except as otherwise described herein.

### ***Retraction***

The Capital Shares may be surrendered for retraction at any time by the holders. Holders may surrender their Capital Shares for retraction by exercising a Regular Retraction, a Concurrent Retraction or a Special Annual Retraction, all as described below. Retraction payments for Capital Shares will be made on the eleventh day of a month or, where such day is not a business day, on the preceding business day (a “Retraction Payment Date”), provided the Capital Shares have been surrendered for retraction at least one business day before the 28th day of the preceding month. Unit Value will be calculated as of the 28th day of each month (the “Valuation Date”). As used herein, the term “business day” means any day, except for a Saturday or Sunday, which is not a statutory or civic holiday in Toronto, Ontario.

Each retraction privilege described below must be exercised by causing written notice to be received by the Company within the notice periods prescribed herein and in the manner described under “Details of the Offerings – Book-Entry Only System”. Each notice must indicate whether the Capital Shares are being retracted pursuant to a Regular, Concurrent or Special Annual Retraction and, where there is an option, how the holder wishes to be paid for his or her Capital Shares retracted. Capital Shares (and Preferred Shares in the case of a Concurrent Retraction or a Special Annual Retraction) will be irrevocably surrendered for retraction upon the delivery of such notice to The Canadian Depository for Securities Limited (“CDS”) through a CDS Participant.

### ***Regular Retraction***

A holder who surrenders two Capital Shares under a regular retraction (a “Regular Retraction”) will receive on the Retraction Payment Date the amount, if any, by which 95% of the Unit Value exceeds the aggregate of (i) the average cost to the Company, including commissions, of purchasing a Preferred Share in the market; and (ii) US\$1.00. The retraction price of a Capital Share may be more or less than the market price of a Capital Share at the time of retraction.

### ***Concurrent Retraction***

A holder who surrenders two Capital Shares together with one Preferred Share under a concurrent retraction (a “Concurrent Retraction”), will receive on the Retraction Payment Date an amount equal to 95% of the Unit Value less US\$1.00.

### ***Special Annual Retraction***

A holder of Capital Shares who surrenders two Capital Shares under a special annual retraction (a “Special Annual Retraction”) for the Retraction Payment Dates occurring on February 11 in each year commencing on February 11, 2003, or, where such day is not a business day, the preceding business day (each such date being an “Annual Retraction Payment Date”) will receive on the applicable Annual Retraction Payment Date, the amount if any, by which the Unit Value exceeds US\$25.00.

A holder who surrenders two Capital Shares together with one Preferred Share under a Special Annual Retraction will receive on the applicable Annual Retraction Payment Date an amount equal to the Unit Value.

A holder who exercises a Special Annual Retraction, but does not give the required 10 business days’ notice, will be deemed to have exercised the Regular Retraction as described above.

Provided a holder of Capital Shares surrenders 10,000 or more Capital Shares for retraction and tenders either one Preferred Share for every two Capital Shares retracted or a cash amount equal to US\$25.00 for every two Capital Shares retracted, plus a delivery charge of US\$0.05 for every two Capital Shares retracted, payable to the Administrator, such holder may elect to receive their pro rata share of the Portfolio Shares (rounded down to the nearest whole share) represented by the Capital Shares retracted less the cost of closing out any options written by the Company plus (minus) the Residual Amount (payable at the Company’s discretion in cash or by adjustment to the number of Portfolio Shares to be delivered to the holder). Any cash so tendered is to be tendered to CDS through a CDS Participant.

### ***Redemption***

Any Capital Shares outstanding on the Redemption Date will be redeemed by the Company on such date. On such redemption, each holder will receive, at the holder’s option, either:

- (a) the amount, if any, by which the Unit Value exceeds US\$25.00; or
- (b) provided the holder tenders to the Company at least 20 business days prior to the Redemption Date, a cash amount per Capital Share redeemed equal to US\$25.00 for every two Capital Shares redeemed, such holder’s pro rata share of the Portfolio Shares (rounded down to the nearest whole share) plus (minus) the Residual Amount (payable at the Company’s discretion in cash or by adjustment to the number of Portfolio Shares to be delivered to the holder). Any cash so tendered is to be tendered to CDS through a CDS Participant.

Notice of redemption will be given to CDS Participants holding Capital Shares on behalf of the beneficial owners thereof at least 45 days prior to the Redemption Date. A holder of Capital Shares must give written notice to CDS through a CDS Participant at least 20 business days prior to the Redemption Date indicating how the holder chooses to be paid for his or her redeemed Capital Shares. Holders who do not give the required 20 business days notice will be deemed to have chosen to be paid in cash.

### ***General***

If any Capital Shares are surrendered for retraction (other than in the event of a Concurrent Retraction or a Special Annual Retraction where Preferred Shares are surrendered to the Company), the Company will redeem or purchase for cancellation that number of Preferred Shares which is equal to one-half the number of Capital Shares so retracted. Capital Shares surrendered to the Company for retraction at least one business day prior to the relevant Valuation Date are deemed to be outstanding until (but not after) the close of business on the relevant Retraction Payment Date or Annual Retraction Payment Date, unless not redeemed thereon, in which event such Capital Shares shall remain outstanding and be considered to be surrendered for retraction on the following Retraction Payment Date.

The Company will be obligated to redeem Capital Shares only to the extent that the redemption would not be contrary to any applicable law. If the Company is unable for this reason to redeem all of the Capital Shares surrendered for payment on a Retraction Payment Date or Annual Retraction Payment Date, it will redeem on each Retraction Payment Date thereafter, on a pro rata basis from shareholders who so surrendered shares, disregarding fractions, such number of Capital Shares not so redeemed as the Company determines it is then permitted to redeem, having regard to its obligation to concurrently redeem or otherwise acquire one Preferred Share for every two Capital Shares so redeemed. The Company will repeat such process on each successive Retraction Payment Date until all such Capital Shares have been redeemed.

### ***Automatic Redemption***

If for two consecutive Valuation Dates the market value of the Portfolio Shares is US\$20,000,000 or less, then the Board of Directors has the right to redeem all Capital Shares then outstanding at the next Annual Retraction Payment Date for a cash amount per share equal to the redemption price of the Capital Shares calculated as if such date was the Redemption Date. In such circumstances, the Company will not provide holders of Capital Shares with 45 days' prior notice of the redemption but will forthwith issue a press release and will provide holders of Capital Shares with notice of the redemption as soon as practicable.

### ***Distributions***

Holders of Capital Shares are entitled to receive any dividends that the Board of Directors of the Company may declare. However, the Company does not anticipate declaring any Ordinary Dividends on the Capital Shares. In the event that the Company realizes capital gains, including capital gains realized on the sale of Portfolio Shares arising as a result of changes in the Health Care Index, the Company may declare a capital gains dividend on the Capital Shares. Any such dividend may be paid in Capital Shares and/or in cash. A capital gains dividend payable in Capital Shares will increase the aggregate adjusted cost base of Capital Shares to the holders thereof. Immediately following payment of such dividend in Capital Shares, the number of Capital Shares outstanding will be automatically consolidated pursuant to the Company's articles such that the number of Capital Shares outstanding will be equal to the number of Capital Shares outstanding immediately prior to such payment.

### ***Voting Rights***

Except as required by law, or as described under "The Company – Operating Expenses and Administration" holders of Capital Shares will not be entitled to receive notice of, to attend or to vote at any meeting of shareholders of the Company other than meetings of the holders of Capital Shares. Holders of Capital Shares will not be entitled to vote any of the Portfolio Shares held by the Company.

In addition, the articles of the Company provide that the Company shall not, without the prior approval of the holders of Capital Shares, (i) amend the rights, privileges, restrictions and conditions attached to the Capital Shares; (ii) amend the provisions in the articles of the Company relating to the restrictions on the business that the Company may carry on; (iii) issue any Capital Shares (other than in respect of capital gains dividends) or Preferred Shares following the closing of the initial public offering of Capital Shares and Preferred Shares; (iv) sell any Portfolio Shares otherwise than (A) to fund the retraction or redemption of any Capital Shares or Preferred Shares; (B) upon the exercise of a call option written by the Company; (C) upon receipt of stock dividends; (D) in the event of a take-over bid for any of the Portfolio Shares; (E) to fund liabilities; or (F) pursuant to the rebalancing of the Portfolio in order to track the composition of the Health Care Index; or (v) to wind-up or dissolve voluntarily.

Replacing the Health Care Index with a replacement or substitute index will require the majority approval of the holders of the Capital Shares and the holders of the Preferred Shares.

### ***Modifications***

Approval of amendments to the provisions of the Capital Shares may be given by a special resolution carried by an affirmative vote of not less than two-thirds of the votes cast at a meeting of the holders of Capital Shares duly called and held for such purpose at which the holders of one-third of the outstanding Capital Shares are present in person or represented by proxy or, if no quorum is present at such meeting, at an adjourned meeting at which the holders of Capital Shares then present would form the quorum.

### ***Priority***

The Capital Shares will rank subsequent to the Preferred Shares and prior to the Class J Shares with respect to the payment of dividends. The Capital Shares will rank subsequent to the Preferred Shares and prior to the Class J Shares with respect to distributions upon a redemption or retraction and distributions upon a dissolution, liquidation or winding-up of the Company.

### **Certain Provisions of the Preferred Shares**

#### ***Issue of Additional Preferred Shares***

The Company will not issue any additional Preferred Shares.

#### ***Distributions***

Holders of the Preferred Shares will be entitled to receive quarterly fixed cumulative preferential distributions equal to US\$0.375 per Preferred Share. Quarterly distributions on the Preferred Shares are expected to be paid by the Company on or about the eleventh day of February, May, August and November in each year. The initial distribution is expected to be US\$0.390 per Preferred Share and is expected to be payable on or about May 11, 2002 based upon the anticipated closing date of February 5, 2002. Such distributions will consist of capital gains dividends and non-taxable returns of capital and may include ordinary dividends. See “The Company – Distribution Policy”.

Preferred Share distributions will be funded from the dividends received on the Portfolio Shares together with premiums earned from writing covered call options on a portion of the Portfolio Shares and where appropriate cash covered put options or on a temporary basis from borrowings under the Company’s Revolving Credit Facility. The Company expects to fund an amount equal to approximately 2.9% of the Portfolio value from writing covered call options in order to pay the Preferred Share distribution. These amounts would generally be distributed as a capital gains dividend on the Preferred Shares. Changes to the Health Care Index which generate capital gains for the Company may also result in the Company designating a portion of a Preferred Share distribution as a capital gains dividend. See “The Company – Distribution Policy” and “Canadian Federal Income Tax Considerations – Tax Treatment of Distributions on Preferred Shares and Capital Shares”.

#### ***Retraction***

The Preferred Shares may be surrendered for retraction at any time. Retraction payments for Preferred Shares will be made on the Retraction Payment Date provided the Preferred Shares have been surrendered for retraction at least one business day prior to the preceding Valuation Date.

The retraction privilege described below must be exercised by causing written notice to be received by the Company within the notice period prescribed herein and in the manner described under “Details of the Offerings – Book-Entry Only System”. Preferred Shares will be irrevocably surrendered for retraction upon the delivery of such notice to CDS through a CDS Participant.

A holder who surrenders a Preferred Share for retraction will receive on the Retraction Payment Date the amount, if any, by which 95% of the Unit Value exceeds the aggregate of (i) the average cost to the Company, including commissions, of purchasing two Capital Shares in the market; and (ii) US\$1.00. The retraction price of a Preferred Share may be more or less than the market price of a Preferred Share at the time of retraction.

#### ***Redemption***

Any Preferred Shares still outstanding on the Redemption Date will be redeemed by the Company on such date at a price per share equal to the lesser of US\$25.00 and the Unit Value.

In addition, the Company may redeem Preferred Shares on any Annual Retraction Payment Date for US\$25.00 per share. The Company will redeem Preferred Shares only to the extent that unmatched Capital Shares have been tendered for retraction under a Special Annual Retraction. Where less than all the Preferred Shares are to be so redeemed, the Preferred Shares shall be redeemed pro rata or in such other manner as is approved by the Board of Directors of the Company.

Notice of redemption will be given to CDS Participants holding Preferred Shares on behalf of the beneficial owners thereof at least 45 days prior to the Redemption Date and at least seven business days prior to any other date of redemption.

### ***General***

If any Preferred Shares are surrendered for retraction (other than in the event of a Concurrent Retraction or a Special Annual Retraction where Preferred Shares are surrendered to the Company), the Company will redeem or purchase for cancellation that number of Capital Shares which is twice the number of Preferred Shares so retracted. The Company will sell Portfolio Shares owned by the Company to the extent required to fund such redemptions or purchases and to pay the retraction price for the Preferred Shares so retracted. Preferred Shares surrendered to the Company for retraction at least one business day prior to the relevant Valuation Date are deemed to be outstanding until (but not after) the close of business on the relevant Retraction Payment Date, unless not redeemed thereon, in which event such Preferred Shares shall remain outstanding and be considered to be surrendered for retraction on the following Retraction Payment Date.

The Company will be obligated to redeem Preferred Shares only to the extent that such redemption would not be contrary to any applicable law. If the Company is unable for this reason to redeem all of the Preferred Shares surrendered for payment on a Retraction Payment Date, it will redeem on each Retraction Payment Date thereafter, on a pro rata basis from shareholders who so surrendered shares, disregarding fractions, such number of Preferred Shares not so redeemed as the Company determines it is then permitted to redeem, having regard to its obligation to concurrently redeem or otherwise acquire two Capital Shares for every Preferred Share redeemed. The Company will repeat such process on each successive Retraction Payment Date until all such Preferred Shares have been redeemed.

### ***Automatic Redemption***

If for two consecutive Valuation Dates the market value of the Portfolio Shares is US\$20,000,000 or less, then the Board of Directors has the right to redeem all Preferred Shares then outstanding at the next Annual Retraction Payment Date for a cash amount per share equal to the redemption price of the Preferred Shares calculated as if such date was the Redemption Date. In such circumstances, the Company will not provide holders of Preferred Shares with 45 days' prior notice of the redemption but will forthwith issue a press release and will provide holders of Preferred Shares with notice of the redemption as soon as practicable.

### ***Voting Rights***

Except as required by law, holders of Preferred Shares will not be entitled to receive notice of, to attend or to vote at any meeting of shareholders of the Company other than meetings of the holders of Preferred Shares. Holders of Preferred Shares will not be entitled to vote any of the Portfolio Shares held by the Company.

In addition, the articles of the Company provide that the Company shall not, without the prior approval of the holders of Preferred Shares, (i) amend the rights, privileges, restrictions and conditions attached to the Preferred Shares; (ii) amend the provisions in the articles of the Company relating to the restrictions on the business that the Company may carry on; (iii) issue any Capital Shares (other than in respect of capital gains dividends) or Preferred Shares following the closing of the initial public offering of Capital Shares and Preferred Shares; (iv) sell any Portfolio Shares otherwise than (A) to fund the retraction or redemption of any Capital Shares or Preferred Shares; (B) upon the exercise of a call option written by the Company; (C) upon receipt of stock dividends; (D) in the event of a take-over bid for any of the Portfolio Shares; (E) to fund liabilities; or (F) pursuant to the rebalancing of the Portfolio in order to track the composition of the Health Care Index; or (v) to wind-up or dissolve voluntarily.

Replacing the Health Care Index with a replacement or substitute index will require the majority approval of the holders of the Capital Shares and the holders of the Preferred Shares.

### ***Modification***

Approval of amendments to the provisions of the Preferred Shares may be given by a special resolution carried by an affirmative vote of not less than two-thirds of the votes cast at a meeting of the holders of Preferred Shares duly called and held for such purpose at which the holders of one-third of the outstanding Preferred Shares are present in

person or represented by proxy or, if no quorum is present at such meeting, at an adjourned meeting at which the holders of Preferred Shares then present would form the quorum.

### ***Priority***

The Preferred Shares will rank prior to the Capital Shares and the Class J Shares with respect to the payment of dividends, distributions upon a redemption or retraction and distributions upon a dissolution, liquidation or winding-up of the Company.

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

Registration of interests in and transfers of the Capital Shares and Preferred Shares will be made only through a book-based system administered by CDS. On or about February 5, 2002 (the “Closing Date”) but no later than April 25, 2002, the Company will deliver to CDS certificates evidencing the aggregate number of Capital Shares and Preferred Shares subscribed for under these offerings. Capital Shares and Preferred Shares must be purchased, transferred and surrendered for retraction or redemption through a CDS Participant. All rights of an owner of Capital Shares or Preferred Shares must be exercised through, and all payments or other property to which such owner is entitled will be made or delivered by, CDS or the CDS Participant through which the owner holds such Capital Shares or Preferred Shares. Upon purchase of any Capital Shares or Preferred Shares, the owner will receive only the customary confirmation. References in this prospectus to a holder of Capital Shares or Preferred Shares mean, unless the context otherwise requires, the owner of the beneficial interest in such shares.

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

An owner of Capital Shares or Preferred Shares who desires to exercise retraction privileges thereunder must do so by causing a CDS Participant to deliver to CDS (at its office in the City of Toronto), on behalf of the owner, a written notice (the “Retraction Notice”) of the owner’s intention to retract shares sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver notice to CDS by the required time. See “Details of the Offerings”. The Retraction Notice may take the form of the notice attached as Exhibit A hereto or such other form as each CDS Participant may prescribe. Any expenses associated with the preparation and delivery of a Retraction Notice shall be for the account of the owner exercising the retraction privilege. Where a beneficial owner of Capital Shares is required to tender cash to the Company in connection with a Special Annual Retraction or a redemption of Capital Shares, such cash must be tendered to CDS through the relevant CDS Participant.

By causing a CDS Participant to deliver a Retraction Notice to CDS, an owner shall be deemed to have irrevocably surrendered his or her shares for retraction and appointed such CDS Participant to act as his or her exclusive settlement agent with respect to the exercise of the retraction privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

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

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

## **INVESTMENT CONSIDERATIONS AND RISK FACTORS**

The following are certain considerations relating to an investment in the Capital Shares or Preferred Shares of the Company, which prospective investors should consider before purchasing such shares.

## Leverage

Holder of the Capital Shares will enjoy a form of leverage in that any capital appreciation in the Portfolio Shares purchased with the proceeds from the issue of both the Capital Shares and the Preferred Shares offered hereby after payment of any accrued and unpaid distributions on the Preferred Shares, redemption or retraction value of the Preferred Shares, exercise or close out of call options and expenses will be for the benefit of the holders of the Capital Shares. In the event of a decrease in the value of the Company's underlying investment in the Portfolio Shares or in shares subject to cash covered put options, this leverage will work to the disadvantage of holders of the Capital Shares, with the result that any net capital loss incurred by the Company on its investment in the Portfolio Shares will effectively first be for the account of the holders of the Capital Shares. If the Unit Value is less than or equal to US\$25.00 plus accrued and unpaid distributions on the Preferred Shares on the Redemption Date, the Capital Shares will have no value.

The fixed distribution on the Preferred Shares will be funded from the cash dividends received on the Portfolio Shares together with premiums earned from writing covered call options on a portion of the Portfolio Shares and where appropriate cash covered put options. The Company expects to fund an amount equal to approximately 2.9% of the Portfolio value from call option writing in order to pay the Preferred Share distribution. The effect of writing covered call options is to reduce the exposure of the Capital Shares to appreciation in the value of the Portfolio Shares. If the volatility of the Portfolio Shares declines, the Company may have to write covered call options on a greater portion of the Portfolio to meet its distribution requirements, thereby reducing the exposure of the Capital Shares to capital appreciation on that greater portion of the Portfolio.

The following table illustrates the redemption price of a Capital Share, the compound annual return on Capital Shares under this offering if held until the Redemption Date and the total compound annual return on Portfolio Shares during the same period, at various levels of Unit Value at the Closing and the Redemption Dates. The Company and the Agents make no representations as to the future levels of Unit Value. These calculations are for illustrative purposes only.

<b>Annual Growth Rate of Portfolio Shares</b>	<b>Portfolio Value per Unit at Redemption<sup>(1)(2)</sup></b>	<b>Capital Share Price at Redemption<sup>(3)(4)</sup></b>	<b>Portfolio Value per Unit Total Return<sup>(2)</sup></b>	<b>Capital Share Total Return</b>
0%	US\$ 48.10	US\$10.00	6.9%	-10.3%
5%	US\$ 66.97	US\$18.32	48.8%	64.3%
10%	US\$ 92.00	US\$29.34	104.5%	163.2%
15%	US\$124.80	US\$43.76	177.4%	292.4%
20%	US\$167.28	US\$62.39	271.8%	459.5%

Notes:

- (1) Assumes Portfolio value per Unit at closing of US\$45.00 (approximately equal to initial Unit Value).
- (2) Assumes reinvestment of all dividends.
- (3) The return on the Capital Share is based on an initial US\$11.15 investment and is calculated after payment of all issue expenses and annual fees and distributions and the Preferred Share redemption price. The Capital Share price at redemption on February 11, 2009 is based on Unit Value maturity prices of US\$45.00, US\$61.64, US\$83.68, US\$112.51 and US\$149.78, respectively.
- (4) Assumes 8.9% of the initial Unit Value is subject to the covered call option program. Call option pricing based on 3% out-of-the-money share price and 35% volatility. Assumes zero price appreciation on the portion of the Portfolio subject to call options.

## Market and Economic Risk

The value of the Capital Shares and Preferred Shares will vary according to the value of the Portfolio Shares, which will depend upon the performance of the issuers of Portfolio Shares. In addition, Portfolio Shares will be susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. The value of the Portfolio Shares will be influenced by factors which are not within the control of the Company including the financial performance of the issuers of Portfolio Shares, interest rates and other financial market conditions. Accordingly, the value of the Capital Shares and Preferred Shares will vary from time to time. In addition, the Company, unlike a conventional mutual fund, is not actively "managed" by traditional methods and therefore the adverse financial condition of a constituent company will not result in the elimination of its securities from the Health Care Index unless such securities are removed from the Health Care Index by S&P.

## **No Ownership Interest**

An investment in Capital Shares or Preferred Shares does not constitute an investment in the Portfolio Shares. Holders of Capital Shares and Preferred Shares will not own the Portfolio Shares held by the Company.

## **Health Care Index**

S&P is under no obligation to continue the calculation and dissemination of the Health Care Index. If such index ceases to be maintained by S&P, the Company may take such action as is determined by the Board of Directors of the Company in accordance with its investment strategy including replacing the Health Care Index with a replacement or substitute index.

## **Mutual Fund Policies**

The Company is considered to be a mutual fund but does not generally operate in accordance with the policies of Canadian securities regulators applicable to conventional mutual funds.

## **Concentration Risk**

Because the Company will hold Portfolio Shares in the same proportion as they are reflected in the Health Care Index, the Company holds more than 10% of its net assets in some constituent companies. If the Company's holdings become concentrated in the shares of certain constituent companies, then the Company's holdings may be considered to be less diversified and such concentration may affect the volatility of the Company.

## **Reliance on the Investment Manager**

The Investment Manager will manage the Portfolio so as to track the composition of the Health Care Index and the weightings of the constituent companies thereof and will implement and execute option writing on behalf of the Company. The officers of the Investment Manager who will be primarily responsible for the management of the Portfolio have extensive experience in advising with respect to option strategies. There is no certainty that such individuals will continue to be employees of the Investment Manager throughout the term of the offerings.

## **Use of Options and Other Derivative Instruments**

The Company is subject to the full risk of its investment position in the Portfolio Shares, including those securities that are subject to outstanding call options and those securities underlying put options written by the Company, should the market price of such securities decline. In addition, the Company will not participate in any gain on the securities that are subject to outstanding call options above the strike price of the options.

There is no assurance that a liquid exchange market will exist to permit the Company to write options on desired terms or to close out option positions should the Investment Manager desire to do so. The ability of the Company to close out its positions may also be affected by exchange imposed daily trading limits on options. If the Company is unable to repurchase a call option which is in-the-money, it will be unable to realize its profits or limit its losses until such time as the option becomes exercisable or expires. In addition, upon the exercise of a put option, the Company will be obligated to acquire a security at the strike price which may exceed the then current market value of such security.

In purchasing options, the Company is subject to the credit risk that its counterparty may be unable to meet its obligations.

## **Foreign Currency Exposure**

As the Company's portfolio consists of securities and options denominated in U.S. dollars the value of the Company and the value of the dividends and option premiums received by the Company will, when measured in Canadian dollars, be affected by fluctuations in the value of the U.S. dollar relative to the Canadian dollar.

## **Tax Treatment of Proceeds of Disposition and Option Premiums**

In determining its income for tax purposes, the Company will treat option premiums received on the writing of options and any losses sustained on closing out options as capital gains and capital losses in accordance with its understanding of Canada Customs and Revenue Agency's published administrative and assessing practice. Gains or losses on the disposition of shares, including disposition of shares held in the Portfolio upon exercise of a call option will be treated as capital gains or losses. The Canada Customs and Revenue Agency's practice is not to grant an advance income tax ruling on the characterization of items as capital gains or income and no advance ruling has been requested or obtained.

If, contrary to the Canada Customs and Revenue Agency's published administrative practice, some or all of the transactions undertaken by the Company in respect of options were treated on income rather than capital account, after-tax returns to shareholders could be reduced and the Company could be subject to non-refundable income tax from such transactions.

## **Securities Lending**

The Company may engage in securities lending as described under "The Company – The Portfolio". Although the Company will receive collateral for the loans and such collateral will be marked to market, the Company will be exposed to the risk of loss should the borrower default on its obligation to return the borrowed securities and the collateral is insufficient to reconstitute the portfolio of loaned securities.

**Prospective purchasers may wish to consult their own investment advisors for advice with respect to the merits of an investment in the Capital Shares or Preferred Shares.**

## **ELIGIBILITY FOR INVESTMENT**

In the opinion of Osler, Hoskin & Harcourt LLP, the Capital Shares and the Preferred Shares, if, as and when listed on a prescribed stock exchange, will be qualified investments under the *Income Tax Act* (Canada) for trusts governed by registered retirement saving plans, registered retirement income funds, registered education savings plans or deferred profit sharing plans. Such shares will be foreign property under such Act.

Eligibility of the Capital Shares and Preferred Shares offered hereby for investment by purchasers to whom any of the following statutes apply is, in certain cases, governed by criteria which such purchasers are required to establish as policies or guidelines pursuant to the applicable statute (and, where applicable, the regulations thereunder) and is subject to the prudent investment standards and general investment provisions provided therein:

*Insurance Companies Act* (Canada)

*Trust and Loan Companies Act* (Canada)

*Pension Benefits Standards Act, 1985* (Canada)

*Pension Benefits Act* (Ontario)

*an Act respecting insurance* (Quebec) (in respect of insurers other than guarantee fund corporations)

*Supplemental Pension Plans Act* (Quebec)

*an Act respecting trust companies and savings companies* (Quebec)

Mutual funds that wish to acquire Capital Shares or Preferred Shares should consult their own advisers.

## **CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

In the opinion of Osler, Hoskin & Harcourt LLP, the following summary presents the principal Canadian federal income tax considerations generally applicable to a prospective purchase of Capital Shares or Preferred Shares pursuant to this prospectus by persons who deal at arm's length with the Company and who hold their Capital Shares or Preferred Shares as capital property.

This summary is based upon the current provisions of the *Income Tax Act* (Canada) (the "Act"), the Regulations thereunder (the "Regulations"), specific proposals for amendments to the Act and the Regulations which have been announced by the Minister of Finance prior to the date hereof (the "Proposed Amendments"), the Canada-United

States Tax Convention, (1980) (the “Treaty”) and counsel’s understanding of the current published administrative practices of the Canada Customs and Revenue Agency. This summary also relies on certain advice received from Scotia Capital relative to the terms and conditions of the Capital Shares and the Preferred Shares. This summary does not take into account provincial or foreign income tax considerations and is not applicable to holders an interest in which would be a tax shelter investment for the purposes of the Act or the Proposed Amendments or to holders that are non-residents of Canada that carry on an insurance business. This summary does not deal with the mark to market rules in the Act and holders that are “financial institutions” as defined in the Act and the Proposed Amendments for purposes of these rules should consult their own tax advisors.

This summary is of a general nature only and is not intended to be, and should not be construed to be, legal or tax advice to any prospective investor. **Accordingly, prospective investors should consult their own tax advisors for advice with respect to the income tax consequences of investing in Capital Shares or Preferred Shares having regard to their own particular circumstances**, including the advisability and effect of electing, pursuant to subsection 39(4) of the Act, to have all Canadian securities (including the Capital Shares and Preferred Shares) owned by them deemed to be capital properties and the deductibility of interest on monies borrowed to acquire Capital Shares or Preferred Shares.

## **Tax Treatment of the Company**

### *Status*

Following the closing of the offerings, the Company will qualify as a “mutual fund corporation” and a “financial intermediary corporation”, as defined in the Act. The Company intends to and this summary assumes that the Company will continue to so qualify as a “mutual fund corporation” and a “financial intermediary corporation” throughout each subsequent taxation year in which any Capital Shares or Preferred Shares remain outstanding.

### *Dividends*

Dividends received by the Company on the Portfolio Shares held by it will be included in its income. The Company will be subject to tax on these dividends, subject to a credit for foreign taxes paid and to permitted deductions for expenses of the Company (See Expenses, discussed below).

As the Company will be a “financial intermediary corporation” as defined in the Act, it will not be subject to tax under Part VI. 1 of the Act on dividends that it pays on the Preferred Shares.

### *Capital Gains*

The Company will realize a capital gain (or sustain a capital loss) upon the disposition of a Portfolio Share (including the disposition of a Portfolio Share to give effect to any changes in the composition or weighting of the shares of the Health Care Index) to the extent that the proceeds of disposition therefor exceed (or are less than) the aggregate of the Company’s adjusted cost base of such share and any costs of disposition. As a mutual fund corporation, the Company maintains a capital gains dividend account in respect of capital gains realized by the Company and from which it may elect to pay dividends which are treated as capital gains in the hands of the shareholders of the Company (“capital gains dividends”). See “Tax Treatment of Distributions on Preferred Shares and Capital Shares” below.

In determining the income of the Company, premiums received by the Company on covered call options written by the Company (and which are not exercised prior to the end of the year) will constitute capital gains of the Company in the year received, and gains or losses realized upon dispositions of securities of the Company (whether upon the exercise of call options written by the Company or otherwise) will constitute capital gains or capital losses of the Company in the year realized unless the Company is considered to be trading or dealing in securities or otherwise carrying on a business of buying and selling securities or the Company has acquired the securities in a transaction or transactions considered to be an adventure in the nature of trade. The Company will purchase the Portfolio with the objective of earning dividends thereon over the life of and the Company will write covered call options with the objective of increasing the yield on the Portfolio beyond the dividends received on the Portfolio to support the distributions on the Preferred Shares. In accordance with Canada Customs and Revenue Agency’s published administrative practice, transactions undertaken by the Company in respect of options and shares will be treated and reported for purposes of the Act on capital account. Upon exercise of a covered call option written by the Company, the premium received by the Company is added in computing the proceeds of disposition to the Company of the

securities disposed of by the Company on exercise of the call option and the granting of the call option is deemed not to be a disposition of property.

The Company, being a mutual fund corporation, will be entitled to refunds in accordance with the provisions of the Act of substantially all tax paid with respect to net taxable capital gains upon payment of sufficient capital gains dividends or in respect of sufficient redemptions of Capital Shares or Preferred Shares.

#### ***Other Income***

Interest income earned by the Company will be included in computing its income.

#### ***Expenses***

The Company will be entitled to deduct an amount equal to the reasonable expenses that it incurs in the course of issuing Capital Shares and Preferred Shares. Such issue expenses, including Agents' fees, will be deductible by the Company ratably over a five-year period. Generally, the Company will also be entitled to deduct administrative expenses. Any non-capital losses incurred by the Company may generally be carried forward or back in accordance with the rules and limitations contained in the Act and deducted in computing the taxable income of the Company.

The Company is required to compute all amounts, including dividend income, foreign taxes paid, cost and proceeds of disposition, option premiums and dividends paid by the Company in Canadian dollars for the purposes of the Act. As a consequence, the amount of income, expenses and capital gains or capital losses may be affected by changes in the value of the U.S. dollar relative to the Canadian dollar.

#### ***Net Canadian Tax Liability***

As a result of the deductions and refunds of tax described above, it is not anticipated that the Company will be subject to any material net Canadian tax liability.

### **Tax Treatment of Distributions on Preferred Shares and Capital Shares**

#### ***Residents of Canada***

Ordinary Dividends received by a holder resident in Canada will be included in computing the holder's income. In the case of a holder that is an individual, Ordinary Dividends will be subject to the gross-up and dividend tax credit rules under the Act normally applicable to taxable dividends received from a taxable Canadian corporation.

An Ordinary Dividend on the Preferred Shares or Capital Shares received by a corporation other than a "specified financial institution" (as defined in the Act) will normally be deductible by the corporation in computing its taxable income.

In the case of a holder that is a specified financial institution, Ordinary Dividends received on the Preferred Shares or Capital Shares will only be deductible in computing its taxable income if either:

- (a) the specified financial institution did not acquire the Preferred Shares or Capital Shares, as applicable, in the ordinary course of its business; or
- (b) at the time of receipt of the dividend by the specified financial institution,
  - (i) the Preferred Shares or Capital Shares, as applicable, are listed on a prescribed stock exchange, and
  - (ii) dividends are received in respect of not more than 10% of the issued and outstanding Preferred Shares or Capital Shares, as applicable, by
    - (A) the specified financial institution, or
    - (B) the specified financial institution and persons with whom it does not deal at arm's length.

For these purposes, a beneficiary of a trust will be deemed to receive the amount of any dividend received by the trust and designated to that beneficiary, effective at the time the dividend was received by the trust, and a member of a partnership will be considered to have received that partner's share of a dividend received by the partnership, effective at the time the dividend was received by the partnership.

A holder which is a “private corporation” (as defined in the Act) or any other corporation controlled directly or indirectly by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) may be liable to pay a refundable tax under Part IV of the Act, generally imposed at the rate of 33 $\frac{1}{3}$ %, on Ordinary Dividends received on the Preferred Shares or Capital Shares to the extent that such dividends are deductible in computing its taxable income.

A holder of Preferred Shares which is a corporation other than a private corporation or a financial intermediary corporation will generally be subject to a 10% tax under Part IV.1 of the Act in respect of any Ordinary Dividends received by it on the Preferred Shares to the extent that such dividends are deductible in computing its taxable income.

The amount of any capital gains dividend received by a holder of Capital Shares or Preferred Shares from the Company will be considered to be a capital gain of such holder from the disposition of capital property in the taxation year of the holder in which the capital gains dividend is received.

Capital Shares received by a holder of Capital Shares as payment of a capital gains dividend will be deemed to have been acquired by such holder at a cost equal to the amount of such dividend. The aggregate adjusted cost base of a holder’s Capital Shares will be increased by the amount of such dividend.

Return of capital payments to a holder of Preferred Shares will not be subject to tax but will reduce the adjusted cost base of the Preferred Shares to the holder.

### ***Non-Residents of Canada***

Ordinary Dividends on Preferred Shares or Capital Shares held by a non-resident of Canada will be subject to Canadian withholding tax which is levied at a basic rate of 25%. This rate, however, may be reduced pursuant to the terms of an applicable tax treaty between Canada and the country of residence of the non-resident. For example, the Treaty reduces this rate to 15%. Capital gains dividends on Capital Shares and Preferred Shares held by a non-resident of Canada will not be subject to Canadian withholding tax.

## **Redemptions, Retractions and Other Dispositions of Preferred Shares or Capital Shares**

### ***Residents of Canada***

A holder who disposes of or who is deemed to dispose of a Capital Share or a Preferred Share, including a disposition to the Company (whether on a retraction or redemption, including a retraction or redemption under which a holder has elected to receive Portfolio Shares, or otherwise), will realize a capital gain (or sustain a capital loss) equal to the amount by which the proceeds of disposition exceed (or are less than) the aggregate of the holder’s adjusted cost base of such share and any costs of disposition.

Where the holder of a Preferred Share or a Capital Share is a corporation, a trust of which a corporation is a beneficiary or a partnership of which a corporation is a member, in certain circumstances the amount of any capital loss otherwise determined may be reduced by the amount of Ordinary Dividends previously received. These rules may also apply to situations where such a trust or partnership is a member of a partnership or a beneficiary of a trust that owns Preferred Shares or Capital Shares.

The portion of a capital gain that must be included in income as a taxable capital gain and the portion of a capital loss that is an allowable capital loss is one-half.

A holder of Preferred Shares or Capital Shares that is a “Canadian-controlled private corporation” (as defined) throughout a taxation year may be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % of its “aggregate investment income” for the year, which is defined to include taxable capital gains.

The cost of Portfolio Shares to a holder of Capital Shares who elects to receive such Portfolio Shares upon a retraction or redemption will be equal to the fair market value of such Portfolio Shares on the Retraction Payment Date or the Redemption Date, as applicable.

### ***Non-Residents of Canada***

A holder of Capital Shares or Preferred Shares who is a non-resident of Canada for purposes of the Act will not be subject to tax under the Act in respect of any capital gain realized by such holder on a disposition of such shares

unless such shares constitute “taxable Canadian property” of the holder (as defined in the Act). Even if such shares constitute “taxable Canadian property” of a holder, the holder may be entitled to relief from Canadian income tax under an applicable tax treaty.

Capital Shares or Preferred Shares will not constitute taxable Canadian property of a non-resident holder in any taxation year in which such holder owned such shares provided that such holder: (i) does not use or hold and is not deemed to use or hold such shares in carrying on business in Canada; and (ii) has not at any time during the five year period immediately preceding the disposition owned, together with such persons with whom such holder does not deal at arm’s length, 25% or more of the issued shares of any class or series of the capital stock of the Company.

### **Foreign Currency Translations**

Holders of Capital Shares and Preferred Shares will be required to compute all amounts, including dividends received, cost and proceeds of disposition of Capital Shares and Preferred Shares in Canadian dollars. As a consequence dividend income, capital gains or capital losses realized by a holder in respect of Capital Shares or Preferred Shares may be affected by fluctuations in the U.S. dollar relative to the Canadian dollar.

### **Specified Foreign Property**

Taxable Canadian residents are generally required to file for informational purposes only a prescribed information return if the aggregate cost amount of specified foreign property (as defined) exceeds Cdn\$100,000. In certain circumstances, a holder of Capital Shares may elect to receive a pro rata share of the Portfolio Shares. Portfolio Shares so received would generally constitute specified foreign property. Moreover, while the matter is unclear, based on published statements made by the CCRA, the Capital Shares may also be considered to be specified foreign property for purposes of these reporting and filing requirements.

### **Tax Exempt Purchasers Resident in Canada**

Capital Shares and Preferred Shares if, as and when listed on a prescribed stock exchange, will be qualified investments for trusts governed by a registered retirement saving plan, a deferred profit sharing plan or a registered retirement income fund (collectively “deferred income plans”). The Capital Shares and the Preferred Shares will be foreign property within the meaning of subsection 206(1) of the Act. Trusts governed by deferred income plans, registered investments, certain pension trusts or corporations and any other persons exempt from tax under Part I of the Act will not be subject to any tax imposed under section 206.1 of the Act by reason of the acquisition or holding of Capital Shares or Preferred Shares.

## **USE OF PROCEEDS**

The net proceeds from the offering of the Capital Shares and the Preferred Shares (after deducting agency fees and expenses of the issue) are estimated to be US\$148,699,600 and will be used by the Company to fund the purchase of Portfolio Shares. In no event shall the aggregate of the amounts paid by the Company to purchase Portfolio Shares exceed the net proceeds expected to be received by the Company from the offering of Capital Shares and Preferred Shares. The offering prices of the Capital Shares and Preferred Shares paid to the Company were established by the Agents. See “The Portfolio”, “Promoter”, “Principal Shareholders” and “Interest of Management and Others in Material Transactions”. Except as noted herein under “Plan of Distribution” and “Interest of Management and Others in Material Transactions”, the net proceeds of these offerings will not be applied for the benefit of the Agents.

## **PLAN OF DISTRIBUTION**

Under an agreement dated as of January 28, 2002 (the “Agency Agreement”) between the Company and the Agents, the Company has appointed the Agents to offer for sale to the public the securities offered hereby. The Agents have agreed to assist the Company in the preparation and filing of this prospectus to qualify the Capital Shares and the Preferred Shares for distribution to the public and to offer for sale to the public the Capital Shares and the Preferred Shares offered hereby, upon the terms and subject to the conditions contained in the Agency Agreement. The Agents have agreed to use their best efforts to sell the securities offered hereby and will receive a fee equal to US\$0.669 per Capital Share sold and US\$0.75 per Preferred Share sold. 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 its fee.

Subscriptions for the securities to be offered hereby will be accepted for Capital Shares and Preferred Shares by the Closing Date. The Capital Shares and Preferred Shares are being offered separately but will be issued only on the basis that two Capital Shares will be issued and outstanding for each Preferred Share issued and outstanding. The right is reserved to close the subscription books at any time without notice and to accept or reject, in whole or in part, any subscriptions received.

While the Agents have agreed to use their best efforts to sell the securities offered hereby, the Agents are not obliged to purchase any securities which are not sold. The Agency Agreement provides that, upon the occurrence of certain stated events, the Agents may terminate the offerings of the securities and the obligations of subscribers to purchase the securities will then cease.

The Company has agreed in the Agency Agreement not to issue any additional Capital Shares or Preferred Shares except as otherwise described herein.

The securities offered hereby have not been and will not be registered under the *United States Securities Act of 1933*, as amended, and may not be offered or sold in the United States of America and this prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States.

Pursuant to policy statements of certain Canadian Securities Administrators, the Agents may not, throughout the period of distribution, bid for or purchase Capital Shares or Preferred Shares. The foregoing restriction is subject to certain exemptions, 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, Capital Shares or Preferred Shares. Such exceptions include a bid or purchase permitted under applicable by-laws and rules of the relevant self-regulatory authorities relating to market stabilization and passive market-making activities and a bid or purchase made for or 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 of the Capital Shares and the Preferred Shares, the Agents may over-allot or effect transactions. Such transactions, if commenced, may be discontinued at any time.

### CAPITALIZATION

The capitalization of the Company at January 28, 2002, and at such date as adjusted to give effect to the issue and sale of the Capital Shares and the Preferred Shares offered hereby, is set forth in the table below.

	<u>Authorized</u>	<u>Outstanding as at January 28, 2002</u>	<u>To be outstanding as at January 28, 2002 after giving effect to these offerings</u>
Liabilities			
Preferred Shares <sup>(1)(2)</sup> .....	unlimited	nil	US\$ 82,500,000 (3,300,000 shs.)
Shareholders' Equity			
Class J Shares .....	unlimited	US\$100 (100 shs.)	US\$ 100 (100 shs.)
Capital Shares <sup>(2)</sup> .....	unlimited	nil	US\$ 73,590,000 (6,600,000 shs.)
Issue Costs .....		US\$ —	US\$ (7,390,400)
<b>Total Capitalization<sup>(3)</sup> .....</b>		<u>US\$100</u>	<u>US\$148,699,700</u>

Notes:

- (1) The Preferred Shares are classified as liabilities because they are retractable at the holder's option.
- (2) See Note 3(a) to the Balance Sheets.
- (3) The Company does not have any retained earnings or contributed surplus as at January 28, 2002.

## PRINCIPAL SHAREHOLDERS

Each of SNP Health Split Holdings Corp. and Scotia Capital owns, beneficially and of record, 50% of the issued and outstanding Class J Shares of the Company. Two directors of Scotia Capital each own, beneficially and of record, 50% of the common shares of SNP Health Split Holdings Corp. The Class J Shares will be lodged in escrow with Computershare Trust Company of Canada pursuant to an agreement dated January 28, 2002 among SNP Health Split Holdings Corp., Scotia Capital, Computershare Trust Company of Canada and the Company and the common shares of SNP Health Split Holdings Corp. (the “Holdings Shares”) will be lodged in escrow with Computershare Trust Company of Canada pursuant to an agreement dated January 28, 2002 among two directors of Scotia Capital, Computershare Trust Company of Canada and SNP Health Split Holdings Corp. (collectively, the “Escrow Agreements”). Under the Escrow Agreements, neither the Class J Shares nor the Holdings Shares may be disposed of or dealt with in any manner until all the Capital Shares and Preferred Shares have been retracted or redeemed without the express consent, order or direction in writing of the Ontario Securities Commission except that the Holdings Shares may be pledged to a Canadian chartered bank as collateral to secure a *bona fide* debt to such bank.

## DIRECTORS AND OFFICERS

The following are the names, municipalities of residence, offices and principal occupations of the directors and officers of the Company:

<u>Name and Municipality of Residence</u>	<u>Office with the Company</u>	<u>Principal Occupation</u>
BRIAN D. MCCHESENEY . . . . . Unionville, Ontario	President, Chief Executive Officer & Director	Managing Director, Scotia Capital Inc.
D. ANTHONY ROSS . . . . . Toronto, Ontario	Director	Business Consultant
ERIC SCHWITZER . . . . . Vancouver, British Columbia	Director	Senior Vice President, Strategic Development, West Coast Energy
MICHAEL K. WARMAN . . . . . Milton, Ontario	Chief Financial Officer, Secretary & Director	Chief Financial Officer, Scotia Capital Inc.
ROBERT C. WILLIAMS . . . . . Toronto, Ontario	Director	Managing Director, Scotia Capital Inc.

During the past five years, all the directors and officers have held the principal occupations noted opposite their respective names, or other occupations with their current employer or a predecessor company, other than Eric Schwitzer, who was a Managing Director at Scotia Capital Inc. prior to 1999 and Anthony Ross, who was Vice Chairman of Merrill Lynch Canada Inc. prior to 1999.

The directors and officers of the Company who are employees of Scotia Capital will not receive any remuneration from the Company in connection therewith.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The Company is a related and connected issuer of Scotia Capital under applicable securities legislation. Scotia Capital will receive a fee upon the issue of the Capital Shares and Preferred Shares offered hereby as described under “Plan of Distribution”. In addition, as described under “The Company – The Portfolio”, Scotia Capital will purchase, as agent on behalf of the Company, the Portfolio Shares pursuant to the Securities Purchase Agreement and is entitled to receive commissions in respect of such purchases not exceeding normal market rates and reimbursement of expenses. Scotia Capital (in its capacity as administrator of the Company (the “Administrator”)), will receive the Administration Fee described under “The Company – Operating Expenses and Administration” for administering the ongoing operations of the Company. Certain of the officers and directors of the Company are currently employees of Scotia Capital. See “Directors and Officers”. Scotia Capital owns 50% of the Class J Shares of the Company and two employees of Scotia Capital each own 50% of the common shares of the corporation that owns the other 50% of the Class J Shares of the Company. See “Principal Shareholders”.

The Company and its senior officers and directors will undertake to file insider trading reports, as if the Company was not a mutual fund, in accordance with applicable provincial securities legislation, for themselves. The Company will undertake to use its best efforts to cause all future senior officers and directors to file insider trading reports as if the Company was not a mutual fund, in accordance with applicable provincial securities legislation and to deliver to each applicable provincial securities regulatory authority an undertaking to file insider trading reports in accordance with applicable provincial securities legislation. Each of Scotia Capital and the Company will severally agree to advise

promptly each of the provincial securities regulatory authorities in the event it is unsuccessful in causing any of its applicable officers or directors to comply with the foregoing reporting requirements. The foregoing undertakings shall remain in full force until such time as all of the Capital Shares and Preferred Shares have been redeemed, retracted or purchased for cancellation.

### **MATERIAL CONTRACTS**

Contracts material to investors in the securities offered by this prospectus that have been or that will have been entered into by the Company prior to the Closing Date are:

- (a) the Investment Management Agreement described under “Investment Management”;
- (b) the Securities Purchase Agreement described under “The Company – The Portfolio”;
- (c) the Administration Agreement described under “The Company – Operating Expenses and Administration”;
- (d) the Agency Agreement described under “Plan of Distribution”;
- (e) the Escrow Agreements described under “Principal Shareholders”; and
- (f) the Custodian Agreement described under “Auditors, Custodian, Transfer Agent and Registrar”.

Copies of the foregoing agreements, after execution thereof, may be inspected during business hours at the head office of the Company during the course of distribution of the securities offered hereby.

### **LEGAL OPINIONS**

The matters referred to under “Eligibility for Investment” and “Canadian Federal Income Tax Considerations” and certain other legal matters relating to the securities offered hereby will be passed upon at the Closing Date by Osler, Hoskin & Harcourt LLP, on behalf of the Agents and the Company.

### **PROMOTER**

Scotia Capital has taken the initiative in organizing the Company and, accordingly, may be considered to be the “promoter” of the Company within the meaning of the securities legislation of certain provinces of Canada. Scotia Capital will receive commissions, the Administration Fee and reimbursement of certain expenses, all as described under “Interest of Management and Others in Material Transactions”.

### **AUDITOR, CUSTODIAN, TRANSFER AGENT AND REGISTRAR**

The auditors of the Company are Deloitte & Touche LLP, BCE Place, 181 Bay Street, Suite 1400, Toronto, Ontario, M5J 2V1.

The Royal Trust Company will act as the custodian for the Company in respect of the Portfolio Shares pursuant to a custodian agreement to be dated the Closing Date, between the Company and The Royal Trust Company.

The transfer agent and registrar for the Capital Shares and the Preferred Shares is Computershare Trust Company of Canada at its principal office in the City of Toronto.

### **PURCHASER’S STATUTORY RIGHTS**

Securities legislation in certain of the provinces 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 provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province for the particulars of these rights or consult with a legal advisor.

## **AUDITORS' REPORT**

To the Directors of  
SNP HEALTH SPLIT CORP.:

We have audited the balance sheet of SNP Health Split Corp. as at January 28, 2002. The financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We have 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, this financial statement presents fairly, in all material respects, the financial position of the Company as at January 28, 2002 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada  
January 28, 2002

DELOITTE & TOUCHE LLP  
Chartered Accountants

## **COMPILATION REPORT**

To the Directors of  
SNP HEALTH SPLIT CORP.:

We have reviewed, as to compilation only, the accompanying pro-forma balance sheet of SNP Health Split Corp. as at January 28, 2002 which has been prepared for inclusion in the prospectus relating to the sale and issue of Capital Shares and Preferred Shares of SNP Health Split Corp. In our opinion, this pro-forma balance sheet has been properly compiled to give effect to the proposed transactions and assumptions described in the notes thereto.

Toronto, Canada  
January 28, 2002

DELOITTE & TOUCHE LLP  
Chartered Accountants

**SNP HEALTH SPLIT CORP.**

**BALANCE SHEET**

January 28, 2002

	<u>Actual</u>	<u>Pro-forma</u>
		(unaudited) (note 3)
<b>Assets</b>		
Cash .....	US\$ 100	US\$ 100
Investment in portfolio shares .....	<u>—</u>	<u>148,699,600</u>
	<u>US\$ 100</u>	<u>US\$148,699,700</u>
<b>Liabilities and Shareholders' Equity</b>		
Liabilities		
Preferred Shares .....	<u>—</u>	<u>US\$ 82,500,000</u>
	<u>—</u>	<u>US\$ 82,500,000</u>
Shareholders' Equity		
Share Capital (note 1)		
Capital Shares .....	—	US\$ 73,590,000
Class J Shares .....	US\$ 100	100
Issue Costs .....	<u>—</u>	<u>(7,390,400)</u>
	<u>100</u>	<u>66,199,700</u>
	<u>US\$ 100</u>	<u>US\$148,699,700</u>

On behalf of the Board:

(Signed) BRIAN D. MCCHESENEY  
Director

(Signed) MICHAEL K. WARMAN  
Director

(see accompanying notes)

# SNP HEALTH SPLIT CORP.

## Notes to Balance Sheet

January 28, 2002

(Information with respect to the pro-forma balance sheet is unaudited.)

### 1. Organization and Share Capital

#### (a) *Incorporation and Authorized Share Capital*

SNP Health Split Corp. (the "Company") was incorporated under the laws of the Province of Ontario on November 29, 2001. The Company's authorized share capital consists of an unlimited number of class A preferred shares (the "Preferred Shares"), class A capital shares (the "Capital Shares"), an unlimited number of class B, C, D and E capital shares and class B, C, D and E preferred shares, issuable in series, and an unlimited number of class J shares (the "Class J Shares").

#### (b) *Preferred Shares and Capital Shares*

The Company will ensure that two Capital Shares will be issued for each Preferred Share issued and that it will be in compliance with the provisions in its articles attaching to the Capital Shares and Preferred Shares. Consequently, any retractions of Preferred Shares or Capital Shares will require the Company to make an aggregate retraction payment for the Preferred Shares and Capital Shares so retracted based on the Unit Value (as defined in the Company's prospectus dated January 28, 2002).

##### (i) *Preferred Shares*

Holders of Preferred Shares will be entitled to receive fixed quarterly cumulative preferential distributions equal to US\$0.375 per Preferred Share. Such quarterly distributions are expected to be paid on or about the eleventh day of February, May, August, and November.

The Preferred Shares outstanding on February 11, 2009 will be redeemed by the Company on such date for a redemption price per share equal to the lesser of US\$25.00 and the Unit Value.

The Preferred Shares may be surrendered at any time for retraction.

Holders of Preferred Shares are not entitled to vote the Portfolio Shares and are not entitled to vote at meetings of the Company, except as provided by law.

The Preferred Shares are classified as liabilities in accordance with the accounting requirements of The Canadian Institute of Chartered Accountants.

##### (ii) *Capital Shares*

The Capital Shares outstanding on February 11, 2009 will be redeemed on such date for an amount for every two Capital Shares equal to the Unit Value minus US\$25.00. The Capital Shares may be surrendered at any time for retraction.

Holders of Capital Shares are not entitled to vote the Portfolio Shares and are not entitled to vote at meetings of the Company, except as provided by law.

Holders of the Capital Shares will not be entitled to receive any dividends in the ordinary course.

#### (c) *Class J Shares*

The Class J Shares of the Company are retractable at any time. For retractions occurring at a time when any Capital Shares or Preferred Shares are outstanding, the retraction price will be US\$1.00 per share; for other retractions the retraction price will be based on the net asset value of the Company. On a winding-up or dissolution of the Company, the holders of the Class J Shares will be entitled to receive the remaining net assets of the Company. The Class J Shares are redeemable at any time for US\$1.00 per share.

Holders of Class J Shares are entitled to one vote per share.

The holders of Class J Shares are entitled to receive dividends, if, as and when declared by the Board of Directors of the Company. However, holders of Class J Shares are not entitled to receive any dividends at any time when there are any Capital Shares or Preferred Shares outstanding.

### 2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada, the most significant of which are outlined below:

#### (a) *Investments*

The Company's investments in Portfolio Shares will be carried at market value using the closing prices on the relevant exchange on which such shares are listed.

(b) *Investment Transactions*

Investment transactions will be recorded on a trade date basis.

**3. Pro-Forma Balance Sheet (unaudited)**

The pro-forma balance sheet gives effect, as at January 28, 2002, to the following transactions:

- (a) the issue of 6,600,000 Capital Shares and 3,300,000 Preferred Shares for total gross proceeds of US\$156,090,000.
- (b) the payment of estimated costs, including the fees payable to the agents of US\$6,890,400 and issue costs of approximately US\$500,000. Such costs, in connection with the organization of the Company, have been charged against Share Capital; and
- (c) the completion of the purchase of an investment portfolio of the common shares (the "Portfolio Shares") of the companies that make up the *S&P Health Care Sector Index* of the S&P 500 Index.

**4. Related Party Information**

The Company has engaged Scotia Capital Inc. ("Scotia Capital"), BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., RBC Dominion Securities Inc., TD Securities Inc., HSBC Securities (Canada) Inc., Canaccord Capital Corporation, Raymond James Ltd., Yorkton Securities Inc. and Trilon Securities Corporation, as agents to offer for sale to the public pursuant to a prospectus dated January 28, 2002 the Capital Shares and the Preferred Shares described in Note 1. Scotia Capital is the promoter of the Company and will receive a fee upon the issue of Capital Shares and the Preferred Shares. Pursuant to a securities purchase agreement dated as of January 28, 2002 between the Company and Scotia Capital, Scotia Capital will purchase the securities referred to under Note 3(c) as agent for the Company and will be reimbursed for any expenses incurred.

The Company intends to establish a revolving credit facility (the "revolving credit facility") with a Canadian chartered bank (the "Bank")(the parent of Scotia Capital) which may be used by the Company to fund, on a temporary basis, any shortfall in the amount required to pay a quarterly Preferred Share distribution where the amount generated from option writing is not sufficient in that quarter. To the extent that the revolving credit facility is used, the Company will pledge Portfolio Shares as collateral for amounts borrowed thereunder.

The Company has engaged Scotia Capital under an administration agreement (the "Administration Agreement") dated as of January 28, 2002, to administer all of the ongoing operations of the Company. In consideration for the services provided by Scotia Capital, as administrator, the Company will pay Scotia Capital a monthly fee (the "Administration Fee") of  $\frac{1}{12}$  of 0.20% of the market value of the Portfolio Shares and any interest income earned by the Company from time to time.

Each of Scotia Capital and SNP Health Split Holdings Corp. owns 50% of the Class J Shares. The common shares of SNP Health Split Holdings Corp. are in turn owned by two employees of Scotia Capital.

## CERTIFICATE OF THE COMPANY AND THE PROMOTER

Dated: January 28, 2002

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 8 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 Section 13 of the *Security Frauds Prevention Act* (New Brunswick) and the respective regulations thereunder, by Part XIV of *The Securities Act* (Newfoundland) and by Part II of the *Securities Act* (Prince Edward Island). 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* (Quebec) and the regulations thereunder.

(Signed) BRIAN D. MCCHESENEY  
President, Chief Executive Officer  
and Director

(Signed) MICHAEL K. WARMAN  
Chief Financial Officer, Secretary  
and Director

On behalf of the Board of Directors

(Signed) ROBERT C. WILLIAMS  
Director

(Signed) D. ANTHONY ROSS  
Director

SCOTIA CAPITAL INC.  
(as Promoter)

By: (Signed) BRIAN D. MCCHESENEY

**CERTIFICATE OF THE AGENTS**

Date: January 28, 2002

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 8 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 Section 13 of the *Security Frauds Prevention Act* (New Brunswick) and the respective regulations thereunder, by Part XIV of *The Securities Act* (Newfoundland) and by Part II of the *Securities Act* (Prince Edward Island). 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* (Quebec) and the regulations thereunder.

SCOTIA CAPITAL INC.

By (Signed): BRIAN D. MCCHESENEY

BMO NESBITT  
BURNS INC.

CIBC WORLD  
MARKETS INC.

NATIONAL BANK  
FINANCIAL INC.

RBC DOMINION  
SECURITIES INC.

TD SECURITIES  
INC.

By (Signed):  
DAVID R. THOMAS

By (Signed):  
SCOTT SMITH

By (Signed):  
IAN MCPHERSON

By (Signed):  
FREDERICK CHANN

By (Signed):  
DAVID BEATTIE

HSBC SECURITIES (CANADA) INC.

By (Signed): DEBORAH J. SIMKINS

CANACCORD CAPITAL  
CORPORATION

RAYMOND  
JAMES LTD.

YORKTON  
SECURITIES INC.

By (Signed): PETER MARRONE

By (Signed): JAMES R. COULTER

By (Signed): MARILIA COSTA

TRILON SECURITIES CORPORATION

By (Signed): TREVOR D. KERR

**EXHIBIT A**  
**RETRACTION NOTICE**  
**SNP Health Split Corp.**

To: CDS Participant

This notice (the "Retraction Notice") is to be completed by a broker representing a holder of Capital Shares of SNP Health Split Corp. (the "Capital Shares") and/or a holder of Preferred Shares of SNP Health Split Corp. (the "Preferred Shares"), and together with the Capital Shares, (the "Securities") who desires to exercise retraction privileges as set out in the SNP Health Split Corp. (the "Company") prospectus (the "Prospectus") dated January 28, 2002.

CDS Participants are urged to refer to the Prospectus to obtain details on the retraction payment dates and the notification periods.

**TYPE OF RETRACTION** (Please check one)

- Regular Retraction:** (available to a holder of Capital Shares or Preferred Shares)  
Go to "Particulars of Retraction (I)"
- Concurrent Retraction:** (must contemporaneously retract two Capital Shares and one Preferred Share)  
Go to "Particulars of Retraction (II)"
- Special Annual Retraction:** (available to a holder of Capital Shares only)  
Go to "Particulars of Retraction (III)"

**PARTICULARS OF RETRACTION**

**I. Regular Retraction**

Number of Capital Shares to be retracted \_\_\_\_\_

Number of Preferred Shares to be retracted \_\_\_\_\_

**II. Concurrent Retraction**

Number of Capital Shares to be retracted \_\_\_\_\_

Number of Preferred Shares to be retracted \_\_\_\_\_

(The number of Capital Shares and Preferred Shares to be retracted under a Concurrent Retraction must be two Capital Shares for each Preferred Share.)

**III. Special Annual Retraction: (available on February 11 in each year commencing on February 11, 2003) only to holders of Capital Shares**

Number of Capital Shares to be retracted \_\_\_\_\_

Please check one payment alternative if exercising a Special Annual Retraction:

- Cash
- Pro rata share of Portfolio Shares

As set out in the Prospectus, a holder electing to receive payment of its pro rata share of Portfolio Shares and other net assets of the Company must tender US\$25.00 or one Preferred Share for every two Capital Shares retracted together with this notice plus a delivery charge of US\$0.05 for every two Capital Shares to be retracted.

Cash tendered \_\_\_\_\_

Number of Preferred Shares tendered \_\_\_\_\_

Broker's Name: \_\_\_\_\_

Fax No.: \_\_\_\_\_

Tel. No.: \_\_\_\_\_

Date of Retraction Notice: \_\_\_\_\_

Signature of Authorized Person: \_\_\_\_\_

UPON AUTHENTICATING THIS RETRACTION NOTICE, THE CDS PARTICIPANT IS DIRECTED TO FORWARD THE FOREGOING INSTRUCTIONS FORTHWITH TO CDS.

