

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. The securities offered by this prospectus have not been and will not be registered under the United States Securities Act of 1933 and, subject to certain exceptions, may not be offered or sold in the United States of America or to U.S. persons. See "Plan of Distribution".

PROSPECTUS DATED JUNE 28, 2005

Initial Public Offering



**\$400,000,000 (Maximum)**

**16,000,000 Preferred Shares and 16,000,000 Class A Shares**

Prime Rate Plus Corp. (the "Company"), a mutual fund corporation incorporated under the laws of the Province of Ontario, is offering up to 16,000,000 Preferred Shares and 16,000,000 Class A Shares (collectively, the "Offering") under this prospectus at a price of \$10.00 per Preferred Share and \$15.00 per Class A Share.

The Company has been created to provide investors with an opportunity to invest in the Canadian banking sector. Quadravest Inc., the manager of the Company, believes this sector offers an attractive dividend yield, continued earnings growth and has a strong history of capital appreciation. The Company is offering investment through two classes of floating rate securities. The distribution amount on these securities will vary with the prevailing prime rate in Canada (the "Prime Rate"). Investors will benefit from increased distributions through a period of rising interest rates.

The Company's investment objectives are:

- (i) to provide holders of Preferred Shares with cumulative preferential floating rate monthly cash dividends at a rate per annum equal to the Prime Rate plus 0.75%, with a minimum annual rate of 5.0% and a maximum annual rate of 7.0%;
- (ii) to provide holders of Class A Shares with regular floating rate monthly cash distributions targeted to be at a rate per annum equal to the Prime Rate plus 2.0%, with a minimum targeted annual rate of 5.0% and a maximum targeted annual rate of 10.0%; and
- (iii) to return the original issue price to holders of both Preferred Shares and Class A Shares at the time of the redemption of such shares on December 1, 2012.

As the Prime Rate on June 27, 2005 was 4.25%, this would result in a monthly dividend payable on the Preferred Shares of \$0.04167, representing a yield of 5.0% per annum, and a regular monthly cash distribution payable on the Class A Shares targeted to be \$0.07813, representing a yield of 6.25% per annum.

The net proceeds of the Offering will be invested in an actively managed portfolio of common shares (the "Portfolio") which will primarily include the shares of the following publicly traded Canadian banks (the "Portfolio Companies"), each of whose common shares will generally represent no less than 5% and no more than 20% of the net asset value ("Net Asset Value") of the Company:

**Bank of Montreal  
The Bank of Nova Scotia  
Canadian Imperial Bank of Commerce**

**National Bank of Canada  
Royal Bank of Canada  
The Toronto-Dominion Bank**

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

	<u>Price to the Public<sup>(1)</sup></u>	<u>Agents' Fees</u>	<u>Net Proceeds to the Company<sup>(2)</sup></u>
Per Preferred Share .....	\$10.00	\$0.30	\$9.70
Total Maximum Offering <sup>(3),(4)</sup> .....	\$160,000,000	\$4,800,000	\$155,200,000
Total Minimum Offering <sup>(4)</sup> .....	\$70,000,000	\$2,100,000	\$67,900,000
Per Class A Share .....	\$15.00	\$0.90	\$14.10
Total Maximum Offering <sup>(3),(4)</sup> .....	\$240,000,000	\$14,400,000	\$225,600,000
Total Minimum Offering <sup>(4)</sup> .....	\$105,000,000	\$6,300,000	\$98,700,000

(1) The offering prices were established by negotiation between the Company and the Agents (as defined below).

(2) Before deducting the expenses of issue, which are estimated to be \$500,000. Such expenses, together with the Agents' fee, will be paid out of the proceeds of the Offering; provided however, that the expenses of the Offering to be borne by the Company shall not exceed 1.5% of the gross proceeds of the Offering.

(continued on next page)

(continued from cover)

- (3) The Company has granted the Agents an option (the “Over-Allotment Option”), exercisable for a period of 30 days from the closing of the Offering, to offer up to 2,400,000 additional Preferred Shares and 2,400,000 additional Class A Shares on the same terms as set forth above, which additional Preferred Shares and Class A Shares are qualified for sale under this prospectus. If the Over-Allotment Option is exercised in full, the total price to the public under the Offering will be \$460,000,000, the Agents’ fee will be \$22,080,000 and the net proceeds to the Company, before expenses of the Offering, will be \$437,920,000. See “Plan of Distribution”.
- (4) There will be no closing unless a minimum of 7,000,000 Preferred Shares and 7,000,000 Class A Shares are sold. If subscriptions for a minimum of 7,000,000 Preferred Shares and 7,000,000 Class A Shares have not been received within 90 days following the date of issuance of a final receipt of this prospectus, the Offering may not continue without the consent of the securities authorities and those who have subscribed on or before such date.

Up to 20% of the Net Asset Value of the Company may be invested in equity securities of Canadian or foreign financial services corporations other than the Portfolio Companies. The Company may substitute Portfolio Companies in extraordinary circumstances. See “The Portfolio Companies”. To supplement the dividends received on the Portfolio and to reduce risk, the Company will from time to time write covered call options in respect of some or all of the common shares in the Portfolio. The Portfolio will be actively managed by Quadravest Capital Management Inc. (“Quadravest”). The common shares that are the subject of call options and the terms of such options will vary from time to time as determined by Quadravest.

Based on market conditions and the planned composition of the Portfolio, dividends payable to holders of Preferred Shares are expected to consist solely of ordinary dividends. Distributions paid on the Class A Shares may consist of ordinary dividends, capital gains dividends and non-taxable returns of capital. The Preferred Shares have been provisionally rated Pfd-2 by Dominion Bond Rating Service Limited.

In the opinion of counsel, the Preferred Shares and Class A Shares, if 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, deferred profit sharing plans (collectively, “Deferred Income Plans”) and registered education savings plans and, provided the Company complies with its investment criteria, will not, based on the provisions of such Act and the Regulations thereunder in force on the date hereof, constitute foreign property for purposes of Part XI of such Act. On February 23, 2005, the Minister of Finance (Canada) proposed that the 30% limit in respect of foreign property that may be held by Deferred Income Plans and certain other persons including registered pension plans be eliminated for 2005 and subsequent calendar years, and this proposal was included in a bill which received third reading in the House of Commons on June 16, 2005 and second reading in the Senate on June 21, 2005. There can be no assurance that this proposal will be enacted. Prospective investors should consult their own tax advisors as to the effect of acquiring Preferred Shares or Class A Shares in a registered education savings plan. See “Eligibility for Investment”.

The Preferred Shares and the Class A Shares (together, a “Unit”) are offered separately, but will be issued only on the basis that there will be an equal number of Preferred Shares and Class A Shares issued. Except as required by law or as provided in this prospectus, holders of Preferred Shares or Class A Shares will not be entitled to vote at any meeting of the Company (see “Shareholder Matters — Acts Requiring Shareholder Approval”) and such holders will not have any voting rights with respect to the shares in the Portfolio from time to time.

The Preferred Shares and the Class A Shares will be redeemed by the Company on December 1, 2012. The redemption price for each Preferred Share redeemed on that date will be equal to the lesser of (i) \$10.00 and (ii) the Net Asset Value on that date, divided by the number of Preferred Shares then outstanding. The redemption price for each Class A Share redeemed on that date will be equal to the greater of (i) the Net Asset Value per Unit on that date, minus \$10.00, and (ii) nil.

The Toronto Stock Exchange (the “TSX”) has conditionally approved the listing of the Preferred Shares and Class A Shares, subject to the Company fulfilling all of the requirements of the TSX on or before September 21, 2005, including distribution of such shares to a minimum number of public holders.

See “Risk Factors” for a discussion of certain factors that should be considered by prospective investors in the Preferred Shares and Class A Shares. **There is currently no market through which the Preferred Shares or the Class A Shares may be sold and purchasers may not be able to resell securities purchased under this prospectus.** Although the Company is considered to be a mutual fund under the securities legislation of certain of the provinces of Canada, it has applied for an exemption from certain of the policies or rules of the Canadian securities regulators applicable to conventional mutual funds.

CIBC World Markets Inc., RBC Dominion Securities Inc., TD Securities Inc., National Bank Financial Inc., Desjardins Securities Inc., HSBC Securities (Canada) Inc., Canaccord Capital Corporation, Dundee Securities Corporation, Raymond James Ltd., Bieber Securities Inc., First Associates Investments Inc., Richardson Partners Financial Limited and Wellington West Capital Inc. (the “Agents”) conditionally offer the Preferred Shares and Class A Shares, subject to prior sale, on a best efforts basis, if, as and when issued by the Company and accepted by the Agents in accordance with the conditions contained in the agency agreement among the Company, Quadravest Inc. as the manager of the Company, Quadravest as the investment manager of the Company and the Agents, and subject to the approval of certain legal matters by Blake, Cassels & Graydon LLP, Toronto, on behalf of the Company, and Osler, Hoskin & Harcourt LLP, on behalf of the Agents. See “Plan of Distribution”.

Subscriptions for the Preferred Shares and Class A Shares will be received subject to acceptance or rejection in whole or in part, and the right is reserved to close the subscription books at any time. Closing of this Offering is expected to occur on or about July 15, 2005, but no later than July 29, 2005. Proceeds from subscriptions received by the Company will be held in segregated accounts until the minimum amount of the Offering has been obtained. Registrations and transfers of Preferred Shares and Class A Shares will be effected only through the book-based system administered by The Canadian Depository for Securities Limited. Beneficial owners of Preferred Shares and Class A Shares will not have the right to receive physical certificates evidencing their ownership. See “Plan of Distribution” and “Details of the Offering — Book-Based System”.

## TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
<b>PROSPECTUS SUMMARY</b> .....	<b>1</b>	Reporting to Shareholders .....	25
Prime Rate Plus Corp. ....	1	<b>CANADIAN FEDERAL INCOME TAX</b>	
The Offering .....	1	<b>CONSIDERATIONS</b> .....	<b>25</b>
Preferred Shares .....	2	Tax Treatment of the Company .....	26
Class A Shares .....	3	Tax Treatment of Shareholders .....	27
General .....	3	<b>ELIGIBILITY FOR INVESTMENT</b> .....	<b>28</b>
Canadian Federal Income Tax Considerations	4	<b>USE OF PROCEEDS</b> .....	<b>28</b>
Summary of Fees and Expenses Payable by		<b>PLAN OF DISTRIBUTION</b> .....	<b>29</b>
the Company .....	5	<b>CAPITALIZATION OF THE COMPANY</b> ...	<b>30</b>
<b>THE COMPANY</b> .....	<b>7</b>	<b>PRINCIPAL SHAREHOLDER</b> .....	<b>30</b>
<b>INVESTMENT INFORMATION</b> .....	<b>7</b>	<b>FEES AND EXPENSES</b> .....	<b>30</b>
Investment Objectives .....	7	Initial Expenses .....	30
Investment Strategy .....	7	Fees and Other Expenses .....	30
Investment Criteria .....	8	<b>INTEREST OF MANAGEMENT AND</b>	
<b>THE PORTFOLIO COMPANIES</b> .....	<b>9</b>	<b>OTHERS IN MATERIAL</b>	
Composition .....	9	<b>TRANSACTIONS</b> .....	<b>31</b>
Changes in Composition .....	9	<b>MATERIAL CONTRACTS</b> .....	<b>32</b>
Voting Rights in Portfolio Company Securities	10	<b>RISK FACTORS</b> .....	<b>32</b>
Trading History of the Shares of the Portfolio		Operating History .....	32
Companies .....	10	Interest and Rate Fluctuations .....	32
Dividend History of the Shares of the		Performance of the Portfolio Companies and	
Portfolio Companies .....	10	Other Conditions .....	32
Summary of the Shares of the Portfolio		Use of Options and other Derivative	
Companies .....	11	Instruments .....	32
<b>COVERED CALL OPTION WRITING</b> .....	<b>11</b>	Net Asset Value and Distributions .....	33
General .....	11	Reliance on the Investment Manager .....	33
Option Pricing .....	11	Conflicts of Interest .....	33
Volatility History .....	13	Treatment of Proceeds of Disposition and	
Dividend Coverage Ratio — Preferred Shares	13	Option Premiums .....	33
Sensitivity Analysis — Class A Shares .....	14	Tax Proposals Regarding Mutual Fund	
<b>MANAGEMENT OF THE COMPANY</b> .....	<b>15</b>	Corporation Status .....	33
Directors and Officers of the Company .....	15	Suspension of Retractions .....	34
The Manager .....	15	<b>LEGAL OPINIONS</b> .....	<b>34</b>
The Investment Manager .....	16	<b>PROMOTER</b> .....	<b>34</b>
<b>DESCRIPTION OF SHARE CAPITAL</b> .....	<b>18</b>	<b>REGISTRAR AND TRANSFER AGENT,</b>	
<b>DETAILS OF THE OFFERING</b> .....	<b>18</b>	<b>CUSTODIAN AND AUDITORS</b> .....	<b>34</b>
Valuation of Assets .....	18	<b>PURCHASER'S STATUTORY RIGHTS</b> ....	<b>35</b>
Certain Provisions of the Preferred Shares .....	19	<b>AUDITORS' CONSENT</b> .....	<b>36</b>
Certain Provisions of the Class A Shares .....	21	<b>AUDITORS' REPORT</b> .....	<b>37</b>
Book-Based System .....	23	<b>STATEMENT OF FINANCIAL POSITION</b> ..	<b>38</b>
Suspension of Retractions or Redemptions .....	24	<b>NOTES TO FINANCIAL STATEMENT</b> .....	<b>39</b>
<b>SHAREHOLDER MATTERS</b> .....	<b>24</b>	<b>CERTIFICATES OF THE COMPANY AND</b>	
Meetings of Shareholders .....	24	<b>THE PROMOTER</b> .....	<b>C-1</b>
Acts Requiring Shareholder Approval .....	24	<b>CERTIFICATE OF THE AGENTS</b> .....	<b>C-2</b>

## PROSPECTUS SUMMARY

*The following is a summary only and is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this prospectus. All dollar amounts in this prospectus are in Canadian currency except as otherwise indicated.*

### **Prime Rate Plus Corp.**

Prime Rate Plus Corp. (the “Company”) is a mutual fund corporation established under the laws of the Province of Ontario on May 25, 2005 that is offering Preferred Shares and Class A Shares pursuant to this prospectus (the “Offering”).

### **The Offering**

**Offering:** The Offering consists of Preferred Shares and Class A Shares. While the Preferred Shares and the Class A Shares are offered separately, they will be issued only on the basis that an equal number of Preferred Shares and Class A Shares (together, a “Unit”) will be issued.

**Amounts:** Maximum — \$160,000,000 (16,000,000 Preferred Shares)  
Minimum — \$ 70,000,000 (7,000,000 Preferred Shares)  
Maximum — \$240,000,000 (16,000,000 Class A Shares)  
Minimum — \$105,000,000 (7,000,000 Class A Shares)

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

**Minimum Purchase:** 100 Preferred Shares or 100 Class A Shares

**Rationale for the Company:** The Company has been created to provide investors with an opportunity to invest in the Canadian banking sector. Quadinvest Inc., the manager of the Company, believes this sector offers an attractive dividend yield, continued earnings growth and has a strong history of capital appreciation. The Company is offering investment through two classes of floating rate securities. The distribution amount on these securities will vary with the prevailing prime rate in Canada (the “Prime Rate”). Investors will benefit from increased distributions through a period of rising interest rates.

**Investment Objectives:** The Company’s investment objectives are:

- (i) to provide holders of Preferred Shares with cumulative preferential floating rate monthly cash dividends at a rate per annum equal to the Prime Rate plus 0.75%, with a minimum annual rate of 5.0% and a maximum annual rate of 7.0%;
- (ii) to provide holders of Class A Shares with regular floating rate monthly cash distributions targeted to be at a rate per annum equal to the Prime Rate plus 2.0%, with a minimum targeted annual rate of 5.0% and a maximum targeted annual rate of 10.0%; and
- (iii) to return the original issue price to holders of both Preferred Shares and Class A Shares at the time of the redemption of such shares on December 1, 2012 (the “Termination Date”).

As the Prime Rate on June 27, 2005 was 4.25%, this would result in a monthly dividend payable on the Preferred Shares of \$0.04167, representing a yield of 5.0% per annum, and a regular monthly cash distribution payable on the Class A Shares targeted to be \$0.07813, representing a yield of 6.25% per annum.

Investment Strategy and Use of Proceeds:

The net proceeds of the Offering will be invested in an actively managed portfolio of common shares (the "Portfolio") which will primarily include the following publicly traded Canadian banks (the "Portfolio Companies"), each of whose shares will generally represent no less than 5% and no more than 20% of the net asset value ("Net Asset Value") of the Company:

<b>Bank of Montreal</b>	<b>National Bank of Canada</b>
<b>The Bank of Nova Scotia</b>	<b>Royal Bank of Canada</b>
<b>Canadian Imperial Bank of Commerce</b>	<b>The Toronto-Dominion Bank</b>

Up to 20% of the Net Asset Value of the Company may be invested in equity securities of Canadian or foreign financial services corporations other than the Portfolio Companies. The Company may substitute Portfolio Companies as necessary in extraordinary circumstances. See "The Portfolio Companies".

To supplement the dividends received on the Portfolio and to reduce risk, the Company will from time to time write covered call options in respect of some or all of the common shares in the Portfolio. The Portfolio will be managed by Quadravest Capital Management Inc. ("Quadravest"). The common shares that are the subject of call options and the terms of such options will vary from time to time as determined by Quadravest.

## Preferred Shares

Dividends:

Holders of Preferred Shares will be entitled to receive floating rate cumulative preferential monthly cash dividends payable at a rate per annum equal to the Prime Rate plus 0.75%. Such rate will be reset each month based, on the Prime Rate on the 15th day of each month or, if such day is not a business day, the next following business day (the "Reset Date"). Regardless of the Prime Rate, however, the minimum annual rate at which dividends will be paid on the Preferred Shares is 5.0% and the maximum annual rate is 7.0%.

The initial dividend on the Preferred Shares will be payable to shareholders of record on August 31, 2005 and, based on an anticipated closing date of July 15, 2005 (the "Closing Date"), is expected to be \$0.06575 per Preferred Share. Based on market conditions and the planned composition of the Portfolio, it is anticipated that such dividends will consist solely of ordinary dividends. See "Details of the Offering — Certain Provisions of the Preferred Shares".

Rating:

The Preferred Shares have been provisionally rated Pfd-2 by Dominion Bond Rating Service Limited ("DBRS").

Retraction:

Preferred Shares may be surrendered at any time for retraction and will be retracted on a monthly basis on the last business day of each month (a "Retraction Date"), provided such shares are surrendered for retraction not less than 20 business days prior to the Retraction Date.

### *Regular Monthly Retractions*

Holders retracting a Preferred Share will be entitled to receive an amount per Preferred Share equal to the lesser of (i) \$10.00; and (ii) 96% of the Net Asset Value determined as of the Retraction Date less the cost to the Company of the purchase of a Class A Share in the market for cancellation. Payment for any shares so retracted will be made within 15 business days of the Retraction Date.

### *Special Annual Concurrent Retractions*

Commencing in July, 2006, shareholders who concurrently retract a Preferred Share and a Class A Share on the Retraction Date in the month of July each year will be entitled to receive an amount equal to the Net Asset Value per Unit calculated as of that date, less any related commissions and other costs (to a maximum of 1% of the Net Asset Value per Unit) related to liquidating the

Portfolio to pay such redemption amount. Payment for any shares so retracted will be made within 15 business days of the July Retraction Date.

### **Class A Shares**

#### **Dividends and Distributions:**

The policy of the Board of Directors of the Company is to pay floating rate monthly non-cumulative distributions to the holders of Class A Shares in an amount targeted to be at a rate equal to the Prime Rate plus 2.0% per annum. Such rate will be reset each month, based on the Prime Rate on the Reset Date. Regardless of the Prime Rate, however, the policy of the Board of Directors is that the minimum rate per annum at which regular monthly distributions are targeted to be paid on the Class A Shares is 5.0% and the maximum rate is 10.0%. In addition, if any amounts remain available for the payment of dividends at the end of the Company's fiscal year, a special year-end dividend of such amount will be payable to Class A Shareholders of record on the last day of November in each year.

Distributions may consist of ordinary dividends, capital gains dividends or non-taxable returns of capital. See "Details of the Offering — Certain Provisions of the Class A Shares" and "Covered Call Option Writing — Sensitivity Analysis — Class A Shares".

No dividend will be paid on the Class A Shares so long as any dividends on the Preferred Shares are then in arrears or so long as the Net Asset Value per Unit is equal to or less than \$15.00. Additionally, no special year-end dividends will be paid if after payment of such a special dividend the Net Asset Value per Unit would be less than \$25.00.

#### **Retraction:**

Class A Shares may be surrendered at any time for retraction and will be retracted on a Retraction Date, provided such shares are surrendered for retraction not less than 20 business days prior to the Retraction Date.

#### *Regular Monthly Retractions*

Holders retracting a Class A Share will be entitled to receive an amount per Class A Share equal to 96% of the Net Asset Value per Unit determined as of the Retraction Date less the cost to the Company of the purchase of a Preferred Share in the market for cancellation. Payment for any shares so retracted will be made within 15 business days of the Retraction Date.

#### *Special Annual Concurrent Retractions*

Commencing in July 2006, shareholders who concurrently retract a Preferred Share and a Class A Share on the Retraction Date in the month of July in each year will be entitled to receive an amount equal to the Net Asset Value per Unit calculated as of that date, less any related commissions and costs (to a maximum of 1% of the Net Asset Value per Unit) related to liquidating the Portfolio to pay such redemption amount. Payment for any shares so retracted will be made within 15 business days of the July Retraction Date.

### **General**

#### **Manager:**

Quadravest Inc. is the Company's manager (the "Manager").

#### **Investment Manager:**

Quadravest is the Company's investment manager. Quadravest is the investment manager of nine public mutual fund corporations and four public mutual fund trusts that have completed public offerings with aggregate proceeds in excess of \$2 billion.

S. Wayne Finch, the Chief Executive and Chief Investment Officer of Quadravest, has over 20 years of experience in designing and managing investment portfolios, including a number of publicly traded investment vehicles

employing investment strategies similar to those proposed by the Company. Laura L. Johnson, a Portfolio Manager and Managing Director, has over 12 years of experience in the financial services industry, including extensive experience with investment products employing investment strategies similar to those proposed by the Company. Peter F. Cruickshank, the Chief Financial Officer and Managing Director, is a chartered accountant who has spent the last 19 years of his career in the investment industry.

Eligibility for Investment:

In the opinion of Blake, Cassels & Graydon LLP, Toronto, counsel to the Company, and Osler, Hoskin & Harcourt LLP, counsel to the Agents, the Preferred Shares and Class A Shares, if and when listed on a prescribed stock exchange, will be qualified investments under the *Income Tax Act* (Canada) (the “Tax Act”) for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans (collectively, “Deferred Income Plans”) and registered education savings plans and, provided the Company complies with its investment criteria, will not, based on the provisions of the Tax Act and the Regulations thereunder in force on the date hereof, constitute foreign property for purposes of Part XI of the Tax Act. On February 23, 2005, the Minister of Finance (Canada) proposed that the 30% limit in respect of foreign property that may be held by Deferred Income Plans and certain other persons including registered pension plans be eliminated for 2005 and subsequent calendar years, and this proposal was included in a bill which received third reading in the House of Commons on June 16, 2005 and second reading in the Senate on June 21, 2005. There can be no assurance that this proposal will be enacted. Prospective investors should consult their own tax advisors as to the effect of acquiring Preferred Shares or Class A Shares in a registered education savings plan.

Custodian:

The Royal Trust Company acts as custodian of the assets of the Company and is responsible for certain aspects of its day-to-day administration.

### **Canadian Federal Income Tax Considerations**

Taxation of the Company:

At the date of the closing of the Offering, provided that the Preferred Shares or the Class A Shares are listed on a prescribed stock exchange in Canada, the Company will qualify, and intends to continue to qualify, as a mutual fund corporation under the Tax Act. As a mutual fund corporation, the Company will be entitled in certain circumstances to capital gains refunds in respect of its net realized capital gains. To the extent that the Company earns income (other than dividends from taxable Canadian corporations and taxable capital gains), the Company will be subject to income tax on such income and no refund of such tax will be available. In determining its income for tax purposes, the Company intends, in accordance with the Canada Revenue Agency’s published administrative practice, to treat gains and losses realized on the disposition of common shares in the Portfolio and option premiums received on writing covered call options as capital gains and losses.

Taxation of Shareholders  
Resident in Canada:

*Dividends:* Dividends other than capital gains dividends (“Ordinary Dividends”) received by individuals on the Preferred Shares and Class A Shares will generally be subject to the normal gross-up and dividend tax credit rules for dividends received from a taxable Canadian corporation. Ordinary Dividends received by corporations (other than specified financial institutions) on the Preferred Shares and Class A Shares will generally be deductible in computing taxable income. Ordinary Dividends received by specified financial institutions on the Preferred Shares and Class A Shares will be deductible in computing taxable income provided certain conditions generally applicable to retractable shares, such as the 10% ownership restriction, are met. Ordinary Dividends

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

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

*Dispositions:* A disposition, whether by way of redemption, retraction or otherwise, of a Preferred Share or Class A Share held as capital property will generally result in a capital gain or capital loss to the holder thereof.

**Risk Factors:**

An investment in Preferred Shares or Class A Shares is subject to certain risks. There can be no assurance that the Company will be successful in meeting its investment objectives, and the Preferred Shares and Class A Shares may trade in the market at a premium or discount to their proportionate shares of the Company's Net Asset Value. Risk factors include:

- (i) the Company's lack of operating history and the current absence of a public trading market for the Preferred Shares or Class A Shares;
- (ii) fluctuations in prevailing interest rates;
- (iii) the performance of the Portfolio Companies;
- (iv) liquidity and counterparty risks associated with the writing of covered call options and other risks associated with the Company's use of derivative instruments;
- (v) the fact that the amount of dividends paid by the Portfolio Companies and value of the securities in the Portfolio will be influenced by factors beyond the Company's control;
- (vi) the Company's reliance on its investment manager, Quadravest;
- (vii) certain conflicts of interest;
- (viii) the fact that the Company is relying on the published administrative practice of the Canada Revenue Agency regarding the manner in which the Company will treat the dispositions of securities and option transactions for tax purposes and that no advance income tax ruling in respect thereof has been requested or received; and
- (ix) risks associated with a suspension of retractions.  
See "Risk Factors".

**Summary of Fees and Expenses Payable by the Company**

The following is a summary of the fees and expenses payable by the Company. For further particulars, see "Fees and Expenses".

Fee payable to the Agents: The Agents (as defined under "Plan of Distribution") will receive a fee equal to \$0.30 (3.0%) for each Preferred Share and \$0.90 (6.0%) for each Class A Share sold.

Expenses of Issue: The Company will pay the expenses incurred in connection with the Offering, which are estimated to be \$500,000; provided, however, that the expenses of the Offering to be borne by the Company shall not exceed 1.5% of the gross proceeds of the Offering.



Fees payable to the Manager:	The Manager is entitled to an administration fee payable monthly in arrears at an annual rate equal to 0.2% of the Company's Net Asset Value calculated as at the last valuation date in each month, plus an amount equal to the service fee (the "Service Fee") payable to dealers.
Fees payable to Quadrainvest:	<p>Quadrainvest is entitled to a base management fee payable monthly in arrears at an annual rate equal to 0.65% of the Company's Net Asset Value calculated as at the last valuation date in each month.</p> <p>Quadrainvest is also entitled to an annual performance fee per Unit equal to 20% of the amount by which the total return per Unit for a financial year exceeds 112% of the bonus threshold established for that year. No performance fee may be paid in any year if (i) the Net Asset Value per Unit is less than \$25.00, (ii) the Preferred Shares are rated by DBRS at less than Pfd-2 (or, if DBRS has not rated such shares, then the equivalent rating of another rating agency that has rated such shares shall apply), or (iii) the Company has not earned a total annual return per Unit of at least a base return on a cumulative basis since inception.</p>
Operating expenses:	The Company will pay all ordinary expenses incurred in connection with the operation and administration of the Company, estimated to be \$300,000 per annum. The Company will also be responsible for commissions and other costs of portfolio transactions and any extraordinary expenses of the Company which may be incurred from time to time.
Service Fee:	The Manager will pay the Service Fee to each dealer whose clients hold Class A Shares. The Service Fee will be calculated and paid at the end of each calendar quarter and will be equal to 0.50% annually of the value of the Class A Shares held by clients of the dealer. For these purposes, the value of a Class A Share is the Net Asset Value per Unit less \$10.00. No Service Fee will be paid in any calendar quarter if regular dividends are not paid to holders of Class A Shares in respect of each month in such calendar quarter.

## THE COMPANY

Prime Rate Plus Corp. (the “Company”) is a corporation incorporated under the *Business Corporations Act* (Ontario) on May 25, 2005 which is offering up to 16,000,000 Preferred Shares and 16,000,000 Class A Shares (collectively, the “Offering”) under this prospectus. The principal office address of the Company is 77 King Street West, Suite 4500, Toronto, Ontario M5K 1K7. The website address of the Company is [www.primerateplus.com](http://www.primerateplus.com).

The Company has been created to provide investors with an opportunity to invest in the Canadian banking sector. QuadraVest Inc., the manager of the Company, believes this sector offers an attractive dividend yield, continued earnings growth and has a strong history of capital appreciation. The Company is offering investment through two classes of floating rate securities. The distribution amount on these securities will vary with the prevailing prime rate in Canada (the “Prime Rate”). Investors will benefit from increased distributions through a period of rising interest rates.

Although the Company is considered to be a mutual fund under the securities legislation of certain provinces of Canada, it has been exempted from certain requirements of National Instrument 81-102 Mutual Funds (“NI 81-102”), a policy statement or rule of the Canadian securities regulators governing public mutual funds.

## INVESTMENT INFORMATION

### Investment Objectives

The Company’s investment objectives are as follows:

- (i) to provide holders of Preferred Shares with cumulative preferential floating rate monthly cash dividends at a rate per annum equal to the Prime Rate plus 0.75%, with a minimum annual rate of 5.0% and a maximum annual rate of 7.0%;
- (ii) to provide holders of Class A Shares with regular floating rate monthly cash distributions targeted to be at a rate per annum equal to the Prime Rate plus 2.0%, with a minimum targeted annual rate of 5.0% and a maximum targeted annual rate of 10.0%; and
- (iii) to return the original issue price to holders of both Preferred Shares and Class A Shares at the time of the redemption of such shares on December 1, 2012.

As the Prime Rate on June 27, 2005 was 4.25%, this would result in a monthly dividend payable on the Preferred Shares of \$0.04167, representing a yield of 5.0% per annum, and a regular monthly cash distribution payable on the Class A Shares targeted to be \$0.07813, representing a yield of 6.25% per annum.

In calculating the Prime Rate from time to time, the Company shall take the arithmetical average of the rates of interest announced by each of the Portfolio Companies as being their reference rate of interest for Canadian dollar loans made in Canada. The initial monthly dividend for the Preferred Shares and the targeted distribution for the Class A Shares will be based on the Prime Rate on the day immediately preceding the Closing Date (as defined below). Thereafter, dividends on the Preferred Shares and targeted distributions on the Class A Shares will be based on the Prime Rate on the Reset Date (as defined below).

### Investment Strategy

The net proceeds of the Offering will be invested in an actively managed portfolio of common shares (the “Portfolio”) which will primarily include the following publicly traded Canadian banks (the “Portfolio Companies”), each of whose shares will generally represent no less than 5% and no more than 20% of the net asset value (“Net Asset Value”) of the Company:

**Bank of Montreal**  
**The Bank of Nova Scotia**  
**Canadian Imperial Bank of Commerce**

**National Bank of Canada**  
**Royal Bank of Canada**  
**The Toronto-Dominion Bank**

Up to 20% of the Net Asset Value of the Company may be invested in equity securities of Canadian or foreign financial services corporations other than the Portfolio Companies. The Company may substitute Portfolio Companies in extraordinary circumstances, and the value of any one Portfolio Company may exceed 20% of the Company’s Net Asset Value in exceptional circumstances including consolidation within the Canadian banking sector. See “The Portfolio Companies”. To supplement the dividends received on the Portfolio and to reduce risk, the Company will from time to time write covered call options in respect of all or a part of the common shares in the Portfolio. The

Portfolio will be managed by Quadravest Capital Management Inc. (“Quadravest”), the Company’s investment manager. The common shares that are the subject of call options and the terms of such options will vary from time to time as determined by Quadravest.

The Company may from time to time, based on Quadravest’s assessment of market conditions, liquidity considerations, maintenance of the rating on the Preferred Shares and other considerations, hold short term debt instruments issued by the government of Canada or a province or short term commercial paper issued by Canadian corporations with a rating of at least R-1 (mid) by Dominion Bond Rating Service Limited (“DBRS”) or the equivalent from another rating organization selected by Quadravest (“Permitted Debt Securities”).

To supplement the dividends earned on the Portfolio and to reduce risk, the Company will from time to time write covered call options in respect of all or part of the Portfolio. The individual securities within the Portfolio which are subject to call options and the terms of such options will vary from time to time based on Quadravest’s assessment of the market. The Company may also write cash covered put options or purchase call options with the effect of closing out existing call options written by the Company and may also purchase put options in order to protect the Company from declines in the market prices of the securities in the Portfolio. The Company may enter into trades to close out positions in such permitted derivatives. The Company may also use derivatives for hedging purposes or otherwise as permitted under NI 81-102. Such permitted derivatives may include exchange traded options, futures contracts or options on futures (subject to Quadravest obtaining any necessary registrations under the *Commodity Futures Act* (Ontario)), over-the-counter options and forward contracts.

### **Investment Criteria**

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

- (a) purchase equity securities of an issuer unless:
  - (i) such securities are common shares issued by a Portfolio Company or are securities convertible into or exchangeable for or that carry the right to purchase such common shares, or the purchase is permitted under clause (ii) below, and
  - (ii) after such purchase, no more than 20% of the Net Asset Value of the Company is invested in equity securities of issuers other than the Portfolio Companies;
- (b) purchase debt securities unless such securities are Permitted Debt Securities;
- (c) write a call option in respect of any security unless such security is held by the Company at the time the option is written;
- (d) dispose of a security included in the Portfolio that is subject to a call option written by the Company unless that option has either been closed out or has expired;
- (e) enter into any arrangement (including the acquisition of securities for the Portfolio and the writing of covered call options in respect thereof) where the main reason for entering into the arrangement is to enable the Company to receive a dividend on such securities in circumstances where, under the arrangement, someone other than the Company bears the risk of loss or enjoys the opportunity for gain or profit with respect to such securities in any material respect;
- (f) until such time, if any, as the *Income Tax Act* (Canada) (the “Tax Act”) is amended to eliminate the potential imposition of tax under Part XI of the Tax Act on the Company, acquire or continue to hold any security that is foreign property under Part XI of the Tax Act if the cost amount to the Company of all foreign property held by the Company would exceed 30% of the cost amount to the Company of all of its property (or such other amount as is specified in the Tax Act and the Regulations thereunder from time to time); and
- (g) acquire or continue to hold any security that is a “specified property” as defined in subsection 18(1) of the legislative proposals to amend the Tax Act released by the Minister of Finance (Canada) on September 16,

2004 if the total of all amounts each of which is the fair market value of a specified property would exceed 10% of the total of all amounts each of which is the fair market value of a property of the Company.

For the purposes of the restrictions set forth in paragraphs (a), (c) and (d) above, any indirect holding of securities of a Portfolio Company is aggregated with the Company's direct holdings and considered to be subject to the same restrictions. The Company has also adopted the standard investment restrictions and practices set forth in NI 81-102 to the extent such restrictions and practices are not inconsistent with the foregoing (in which event the foregoing provisions shall prevail).

## **THE PORTFOLIO COMPANIES**

### **Composition**

The Company will invest the net proceeds of the Offering primarily in shares of the Portfolio Companies listed above under "Investment Information — Investment Strategy" and may invest up to 20% of the Net Asset Value of the Company in equity securities of Canadian or foreign financial services corporations other than the Portfolio Companies.

### **Changes in Composition**

Quadravest may change the composition of the Portfolio Companies from time to time to respond to mergers, take-over bids, going private transactions, changes in business focus away from the banking industry, changes in financial condition or other actions affecting the Portfolio Companies as described below. The approval of holders of the Preferred Shares and Class A Shares is not required for a change in the composition of the Portfolio Companies. The Company will issue a press release in the event any changes are made by Quadravest to the companies included in the list of Portfolio Companies.

If any Portfolio Company makes a special distribution to its securityholders, is a party to or affected by any reorganization, amalgamation, plan of arrangement, securities exchange take-over bid, merger or sale of material assets or any other business combination (a "Business Combination") or a cash take-over bid is made for the securities of such Portfolio Company, Quadravest on behalf of the Company may take such action as it considers in the best interests of the Company. In taking such action, Quadravest shall consider the guidelines outlined below, provided that such guidelines shall not limit the general discretion conferred upon it with respect to any Portfolio Company.

Upon any subdivision, consolidation, reclassification or other similar change to any of securities in the Portfolio (a "Reclassification"), the securities received in respect of such securities as a result of the Reclassification will, together with any residual, be treated as part of the Portfolio for all purposes relating to the Preferred Shares and the Class A Shares including the prices payable on redemption and retraction of the Preferred Shares and the Class A Shares.

Upon any distribution (an "extraordinary distribution") by a Portfolio Company in respect of securities in the Portfolio, other than a cash dividend or a stock dividend paid in the ordinary course by a Portfolio Company, such extraordinary distribution will, together with the securities in the Portfolio in respect of which the extraordinary distribution was made, be treated in the same manner as securities received upon a Reclassification. Any other securities or property received by the Company will either be sold, in which case the Company shall use the net proceeds to acquire additional securities for the Portfolio as may be determined by Quadravest, or may be held by the Company.

Upon the implementation of any Business Combination affecting a Portfolio Company, or to which a Portfolio Company is a party, the securities of a Portfolio Company or any successor thereto received in respect of securities in the Portfolio will, together with any residual, be treated in the same manner as securities received as a result of a Reclassification and any other securities, property or cash received in respect of securities in the Portfolio will be treated in the same manner as securities, property or cash received upon any extraordinary distribution by a Portfolio Company in respect of the Portfolio securities.

Any transferable rights issued to the Company pursuant to a rights offering by a Portfolio Company may be exercised or may be sold and the net proceeds of such sale used to purchase additional common shares of one or more Portfolio Companies which will, together with the securities in respect of which such rights were received, be treated in the same manner as securities received as the result of a Reclassification.

In the event of a take-over bid for any of the shares in the Portfolio, Quadravest will, if it determines that such bid is in the best interests of shareholders, tender such shares to such bid.

### Voting Rights in Portfolio Company Securities

Holders of Preferred Shares or Class A Shares will not have any voting rights in respect of the shares of the Portfolio Companies held in the Portfolio. Quadravest will determine whether and how to vote the shares in the Portfolio from time to time. Quadravest is responsible for advising the Company as to any voting rights it may have in the securities of the Portfolio Companies. Quadravest does not make a distinction between routine and non-routine corporate matters in respect of such voting rights. It evaluates each proposed corporate matter on its merits and makes its recommendations as to how the Company should vote, or to refrain from voting such securities, as it determines would be in the best interest of the Company. Quadravest will ensure that proxies are duly signed by the Company and submitted on behalf of the Company in a timely manner.

Quadravest will maintain on behalf of the Company a proxy voting record which includes, each time it receives proxy voting materials, the name of the issuer in question; the stock exchange on which the securities are listed and the ticker symbol for such securities; the CUSIP number for the securities; the meeting date and whether the meeting was called by management or otherwise; a brief identification of the matters to be voted on at the meeting; whether, and if so how, Quadravest on behalf of the Company voted on such matters; and whether the votes cast by Quadravest on behalf of the Company were for or against the recommendations of management of the issuer.

The Company will prepare a proxy voting record for the period ending on June 30 of each calendar year. The first such record will relate to the period from July 1, 2005 to June 30, 2006 and will be completed by August 31, 2006. Upon request made by a shareholder, the Company will deliver a copy of its proxy voting record to such Unitholder without charge.

### Trading History of the Shares of the Portfolio Companies

The following table sets forth the closing market prices of the common shares of the Portfolio Companies on the Toronto Stock Exchange (the "TSX") on the dates indicated:

	Closing Price as at May 26, 2005	Closing Share Price as at December 31 <sup>(1)</sup>				
		2004	2003	2002	2001	2000
Bank of Montreal . . . . .	\$55.50	\$57.76	\$53.50	\$41.69	\$35.90	\$39.30
The Bank of Nova Scotia . . . . .	\$39.50	\$40.70	\$32.90	\$26.33	\$24.48	\$21.60
Canadian Imperial Bank of Commerce	\$72.44	\$72.23	\$64.00	\$43.52	\$54.85	\$46.50
National Bank of Canada . . . . .	\$52.50	\$49.56	\$43.14	\$32.30	\$29.70	\$26.60
Royal Bank of Canada . . . . .	\$76.00	\$64.25	\$61.80	\$57.85	\$51.83	\$50.85
The Toronto-Dominion Bank . . . . .	\$52.17	\$49.92	\$43.29	\$34.01	\$41.08	\$43.45

(1) Share prices are adjusted for stock splits.

### Dividend History of the Shares of the Portfolio Companies

The following table sets forth the dividends paid on the common shares of the Portfolio Companies for the calendar years indicated:

	Dividends for the 12 months ended December 31 <sup>(1)</sup>				
	2004	2003	2002	2001	2000
Bank of Montreal . . . . .	\$1.59	\$1.34	\$1.20	\$1.12	\$1.00
The Bank of Nova Scotia . . . . .	\$1.10	\$0.84	\$0.73	\$0.63	\$0.50
Canadian Imperial Bank of Commerce . . . . .	\$2.35	\$1.73	\$1.64	\$1.48	\$1.32
National Bank of Canada . . . . .	\$1.68	\$1.15	\$0.98	\$0.84	\$0.76
Royal Bank of Canada . . . . .	\$2.02	\$1.72	\$1.52	\$1.38	\$1.14
The Toronto-Dominion Bank . . . . .	\$1.40	\$1.20	\$1.12	\$1.12	\$0.96

(1) Dividends are adjusted for stock splits, but do not include extraordinary distributions.

## Summary of the Shares of the Portfolio Companies

The following table sets forth a summary of the recent closing market prices on the TSX, annual dividends, dividend yield and average annual total return of the common shares of the Portfolio Companies:

	<u>Closing Price<sup>(1)</sup></u>	<u>Annual Dividend<sup>(2)</sup></u>	<u>Dividend Yield</u>	<u>Average Annual Total Return<sup>(3)</sup></u>
Bank of Montreal . . . . .	\$55.50	\$1.84	3.32%	19.63%
The Bank of Nova Scotia . . . . .	\$39.50	\$1.36	3.44%	22.33%
Canadian Imperial Bank of Commerce . . . . .	\$72.44	\$2.72	3.75%	17.69%
National Bank of Canada . . . . .	\$52.50	\$1.76	3.35%	24.09%
Royal Bank of Canada . . . . .	\$76.00	\$2.44	3.21%	19.97%
The Toronto-Dominion Bank . . . . .	\$52.17	\$1.60	3.07%	11.26%

Source: Bloomberg

(1) As of May 26, 2005.

(2) Based on the last declared quarterly dividend per share annualized.

(3) From April 28, 2000 to April 29, 2005.

## COVERED CALL OPTION WRITING

### General

A call option is a right, but not an obligation, of the holder of the call option to purchase a security from the seller of the call option at a specified purchase or “strike” price at any time during a specified time period. The Company intends to write call options in respect of certain of the securities held in the Portfolio. The call options may be either exchange traded options or over-the-counter options. As call options will be written only in respect of securities that are in the Portfolio, and the investment criteria of the Company prohibit the sale of securities subject to an outstanding option, the options will be “covered call options” at all times.

By writing 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 the market price of the underlying securities in the Portfolio is above the strike price, such that the call option is “in-the-money”, 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. Alternatively, the Company may repurchase a call option which is in-the-money by paying the market value of the call option. However, if at expiration of a call option the strike price is greater than the current market price of the underlying security such that the option is “out-of-the-money”, the holder of the option will likely not exercise the option and the option will expire. In each case, the Company will retain the option premium.

The amount of an option premium depends, among other factors, upon the tendency of the price of the underlying security to vary over time (the “volatility”). The higher the volatility, the higher the option premium. In addition, the amount of the option premium will depend upon the difference between the strike price of the option and the market price of the underlying security at the time the option is written. The smaller the positive difference (or the larger the negative difference), the more likely the option will become in-the-money during the term and, accordingly, the greater the option premium.

If a call option is written on a security held in the Portfolio, 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 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.

### Option Pricing

Many investors and financial market professionals price call options based on the Black-Scholes Model, a widely used option pricing 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:

- *The volatility of the price of the underlying security:* the volatility of the price of an underlying security measures the tendency of the price of the security to vary during a specified period. The higher the price volatility, the more likely 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.
- *The difference between the strike price and the market price of the underlying security at the time the option is written:* the smaller the positive difference (or the larger the negative difference), the greater the option premium.
- *The term of the option:* the longer the term, the greater the option premium.
- *The “risk-free” or benchmark interest rate in the market in which the option is issued:* the higher the risk-free interest rate, the greater the option premium.
- *The dividends expected to be paid on the underlying security during the relevant term:* the greater the dividends, the lower the option premium.

The table below illustrates the sensitivity of annualized option premiums from writing call options on a hypothetical portfolio of securities to the average volatility of the individual securities comprising the hypothetical portfolio and to the excess of the strike price over the market price of the underlying securities expressed as a percentage of such market price at the time the options on the securities in the hypothetical portfolio are written (or percentage out-of-the-money). The option premiums are expressed as a percentage of the asset value of the portfolio and have been calculated using a Black-Scholes Model (modified to include dividends) based on the following assumptions:

1. all call options are exercisable at any time during their term and are written at the same percentage out-of-the-money;
2. all securities in the portfolio on which call options may be written are subject to 30 day call options throughout the relevant period (note that this assumption is for illustrative purposes only and is not indicative of the extent to which covered call options will or are intended to be written by the Company);
3. the risk-free or benchmark interest rate is 2.5%; and
4. the average return from the dividends paid on the securities in the portfolio is 3.19%.

The range of percentage out-of-the-money shown in the table below is based on the range generally expected to be utilized by QuadraVest in writing call options.

**Annualized Premiums from Covered Call Option Writing  
(measured as a % return)**

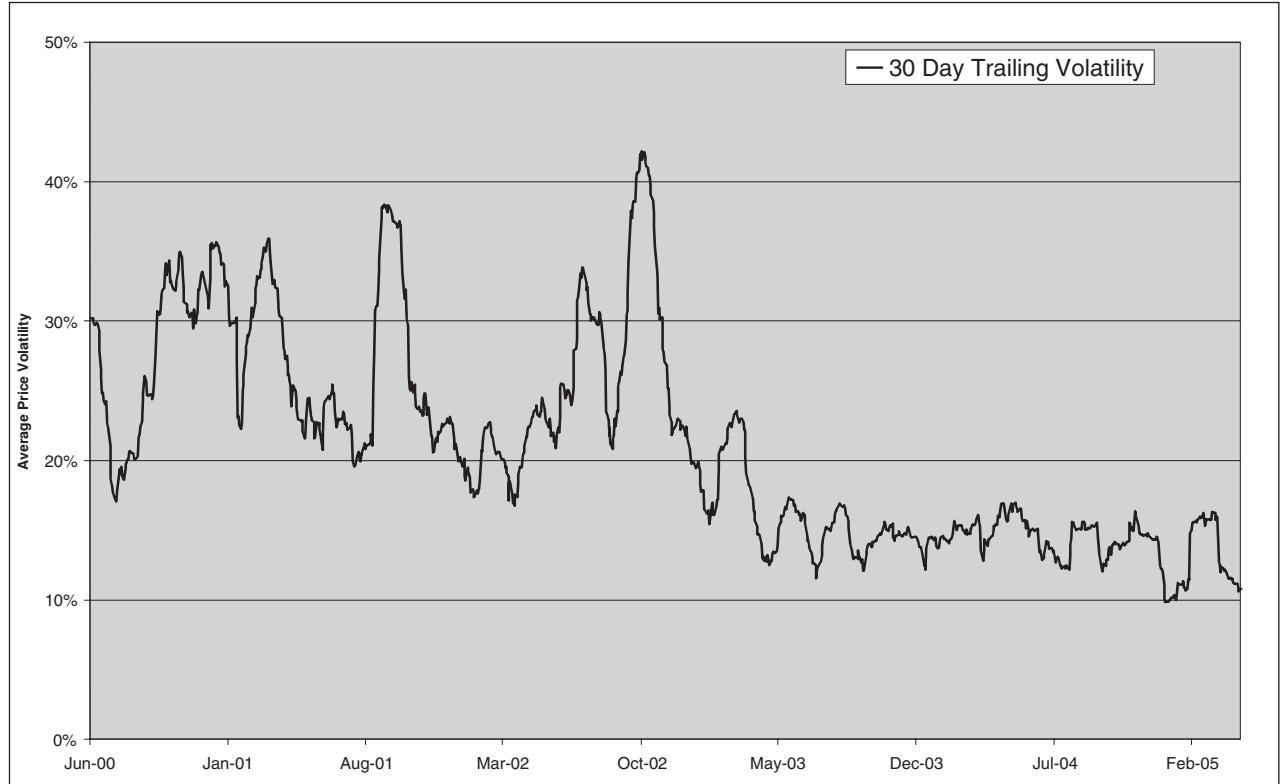
% Out-Of-the-Money	Average Volatility of the Individual Securities in the Portfolio								
	12%	14%	16%	18%	20%	22%	24%	26%	28%
4% .....	2.6%	4.2%	6.0%	8.0%	10.1%	12.4%	14.7%	17.1%	19.5%
2% .....	7.1%	9.5%	12.0%	14.5%	17.1%	19.7%	22.3%	25.0%	27.6%
0% .....	16.1%	18.8%	21.6%	24.3%	27.1%	29.8%	32.5%	35.3%	38.0%

**The information set forth above is provided for illustrative purposes only and should not be construed as a forecast or projection. In practice, actual option premiums are determined in the marketplace and may not necessarily reflect the figures shown in this table. No assurance can be given that the returns shown in this sensitivity analysis will be realized.**

## Volatility History

Illustrated below is the historical average of the trailing 30 day volatility (expressed in percentage terms on an annualized basis) of the shares of the Portfolio Companies based on prices from May 18, 2000 to May 24, 2005.

**Average Price Volatility of the Portfolio Company Securities**



For the same five year period, the average volatility of the individual securities of the Portfolio Companies ranged from a low of 9.82% to a high of 42.18%, with an average of 20.87%.

## Dividend Coverage Ratio — Preferred Shares

A dividend coverage ratio for Preferred Shares is the ratio of the income of the Company available for the payment of dividends on the Preferred Shares to the amount of the dividends required to be paid. The higher the ratio, the more likely it is that the Company will have sufficient income available to pay the dividends. Based on current market conditions, dividends payable to holders of the Preferred Shares are expected to be funded from dividends received on the shares in the Portfolio. The chart below provides estimated dividend coverage ratios for the annual dividend requirements on the Preferred Shares, based on the assumptions set out under “— Option Pricing” and the following additional assumptions:

1. the gross proceeds from the Offering are \$150 million, which is fully invested on an equally weighted basis in each of the shares of the Portfolio Companies;
2. an equal number of Preferred Shares and Class A Shares are issued;
3. the range of volatility shown in the table encompasses the range of the historical average volatility of the shares of the Portfolio Companies;
4. there are no capital gains or losses on the shares in the Portfolio for the period during which the call options are outstanding (note that this assumption is for illustrative purposes only and the Company expects that there will be capital gains and losses which may have a positive or negative effect on the value of the Portfolio);



5. annual expenses of the Company (ordinary and extraordinary) are \$300,000 plus the fees payable to Quadrainvest and the Manager (as defined below) and the service fee payable to dealers described under ‘‘Fees and Expenses’’; and
6. the holders of the Preferred Shares are entitled to a monthly dividend of \$0.04167 per share (to yield 5.0% per annum on the original issue price).

The range of percentage out-of-the-money shown in the table below is based on the range generally expected to be utilized by Quadrainvest in writing call options.

#### Dividend Coverage Ratios for the Preferred Shares

% Out-Of-The-Money	Average Volatility of the Individual Securities in the Portfolio								
	12%	14%	16%	18%	20%	22%	24%	26%	28%
4% .....	2.1x	2.8x	3.7x	4.6x	5.6x	6.6x	7.4x	8.3x	9.3x
2% .....	4.2x	5.3x	6.4x	7.4x	8.4x	9.3x	10.3x	11.3x	12.4x
0% .....	8.0x	9.0x	10.1x	11.1x	12.1x	13.2x	14.2x	15.3x	16.3x

**The information set forth above is provided for illustrative purposes only and should not be construed as a forecast or projection. No assurance can be given that the returns from call option writing upon which the estimated net income of the Company has been based will be realized.**

#### Sensitivity Analysis — Class A Shares

The table below represents an assessment of the sensitivity of the net return to holders of the Class A Shares from dividends and option premiums of the Company (excluding any gains or losses on Portfolio investments, dividend increases or decreases and any amounts paid to close out in-the-money options) to (i) the average volatility of the individual securities that could be included in the Portfolio; and (ii) the excess of the strike price over the market price of the securities expressed as a percentage of such market price at the time the option is written (or percentage out-of-the-money) using a modified Black-Scholes Model. The table is based on the same assumptions set forth above under ‘‘— Dividend Coverage Ratio — Preferred Shares’’.

The range of percentage out-of-the-money shown in the table below is based on the range generally expected to be utilized by Quadrainvest in writing call options.

#### Return (Net of Expenses) on Class A Shares from Dividends and Option Premiums (Annualized %)

% Out-Of-The-Money	Average Volatility of the Individual Securities in the Portfolio								
	12%	14%	16%	18%	20%	22%	24%	26%	28%
4% .....	3.5%	6.0%	8.9%	12.1%	15.4%	18.5%	21.5%	24.5%	27.6%
2% .....	10.7%	14.5%	18.0%	21.2%	24.5%	27.8%	31.1%	34.5%	37.9%
0% .....	23.3%	26.7%	30.2%	33.7%	37.1%	40.6%	44.1%	47.5%	51.0%

**The information in the table is provided for illustrative purposes only and should not be construed as a forecast or projection. No assurance can be given that the returns shown in this sensitivity analysis will ever be available or realized.**

## MANAGEMENT OF THE COMPANY

### Directors and Officers of the Company

The following are the names, municipalities of residence, office and principal occupations of the directors and officers of the Company.

<u>Name and Municipality of Residence</u>	<u>Office</u>	<u>Principal Occupation</u>
S. WAYNE FINCH <sup>(1)</sup> . . . . . Brampton, Ontario	Chairman, President, Chief Executive Officer and Director	Chief Executive and Chief Investment Officer, Quadravest Capital Management Inc.
LAURA L. JOHNSON . . . . . Oakville, Ontario	Secretary and Director	Managing Director and Portfolio Manager, Quadravest Capital Management Inc.
PETER F. CRUICKSHANK . . . . . Brampton, Ontario	Chief Financial Officer and Director	Managing Director and Chief Financial Officer, Quadravest Capital Management Inc.
WILLIAM C. THORNHILL . . . . . Mississauga, Ontario	Director	President, William C. Thornhill Consulting Inc.
MICHAEL W. SHARP <sup>(1)</sup> . . . . . Toronto, Ontario	Director	Partner, Blake, Cassels & Graydon LLP
JOHN D. STEEP <sup>(1)</sup> . . . . . Scarborough, Ontario	Director	Consultant

(1) Member of the Audit Committee.

All of the directors and officers of the Company have held the same principal occupation for the five years preceding the date hereof except for Mr. Steep, who was Senior Vice President Retail Sales & Service with a Canadian chartered bank between October 1999 and April 2002.

### The Manager

Pursuant to an agreement between the Company and Quadravest Inc. dated June 28, 2005 (the “Management Agreement”), Quadravest Inc. (the “Manager”) is the manager of the Company and, as such, is responsible for providing or arranging for administrative services required by the Company including, without limitation, authorizing the payment of operating expenses incurred on behalf of the Company; preparing financial statements and financial and accounting information as required by the Company; ensuring that shareholders are provided with financial statements (including semi-annual and annual financial statements) and other reports as are from time to time required by applicable law; ensuring that the Company complies with regulatory requirements and applicable stock exchange listing requirements; preparing the Company’s reports to shareholders and the Canadian securities regulatory authorities; determining the amount of dividends to be paid by the Company; and negotiating contractual agreements with third-party providers of services, including registrars, transfer agents, auditors and printers.

The Manager is required to exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of shareholders, and in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent manager would exercise in similar circumstances.

The Manager may resign upon 60 days notice to shareholders and the Company or such lesser notice as the Company may accept. If the Manager resigns it may appoint its successor, but its successor must be approved by shareholders unless it is an affiliate of the Manager. If the Manager commits certain events of bankruptcy or insolvency or is in material breach or default of its obligations under the Management Agreement and such breach or default has not been cured within 30 days after notice of same has been given to the Manager, the Company shall give notice thereof to shareholders and the shareholders may remove the Manager and appoint a successor manager. Except as described above, the Manager cannot be terminated as manager of the Company.

The Manager is entitled to fees for its services under the Management Agreement as described under “Fees and Expenses” and will be reimbursed for all reasonable costs and expenses incurred by it on behalf of the Company. In addition, the Manager and each of its directors, officers, employees and agents will be indemnified by the Company from and against all legal fees, judgments and amounts paid in settlement, actually and reasonably incurred by the

Manager or any of its officers, directors, employees or agents in the exercise of its duties as manager, unless those fees, judgments or amounts paid in settlement were incurred as a result of a breach by the Manager of the standard of care described above and provided the Company has reasonable grounds to believe that the action or inaction that caused the payment of the fee, judgment or amount paid in settlement was in the best interests of the Company.

The management services of the Manager under the Management Agreement are not exclusive and nothing in the Management Agreement prevents the Manager from providing similar management services to other investment funds and other clients (whether or not their investment objectives and policies are similar to those of the Company) or from engaging in other activities. For a list of the directors and officers of the Manager, see “— The Investment Manager”.

The principal office address of the Manager is 77 King Street West, Suite 4500, Toronto, Ontario M5K 1K7. The Manager is controlled by S. Wayne Finch.

**The Investment Manager**

Quadravest will manage the Company’s investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Company pursuant to an agreement (the “Investment Management Agreement”) between the Company and Quadravest dated June 28, 2005. Investment assets are generally managed by Quadravest to meet specific absolute return objectives rather than taking on the additional risk of targeting relative returns. As a result of the dual focus of absolute returns and capital preservation, Quadravest is able to adopt a more defensive approach in implementing its investment strategies than would be the case if it focused on relative returns. Quadravest relies on fundamental analysis in managing equity portfolios, such that it focuses on a company’s earnings history, relative price — earnings multiple, cash flow, dividend yield, market position and growth prospects.

Quadravest is the investment manager of nine public mutual fund corporations and four public mutual fund trusts that have completed public offerings with aggregate proceeds in excess of \$2 billion. The principal office address of Quadravest is 77 King Street West, Suite 4500, Toronto, Ontario M5K 1K7, and its website address is www.quadravest.com. The Manager owns all of the voting shares of Quadravest.

***Directors and Officers of Quadravest***

The name and municipality of residence of each of the directors and officers of Quadravest, who also hold similar positions with the Manager, are as set out below.

<u>Name and Municipality of Residence</u>	<u>Office</u>
S. WAYNE FINCH . . . . . Brampton, Ontario	Chairman, President, Secretary, Chief Executive Officer, Chief Investment Officer and Director
LAURA L. JOHNSON . . . . . Oakville, Ontario	Managing Director and Portfolio Manager
PETER F. CRUICKSHANK . . . . . Brampton, Ontario	Managing Director and Chief Financial Officer
WILLIAM C. THORNHILL . . . . . Mississauga, Ontario	Vice-Chairman and Director

Wayne Finch is the Chairman and Chief Investment Officer of Quadravest. Mr. Finch has over 20 years of experience in designing and managing investment portfolios. Prior to forming Quadravest in 1997, Mr. Finch was Vice-President at another investment management firm where he was a portfolio manager of a number of publicly traded investment vehicles employing investment strategies similar to those proposed by the Company, and prior to that was a portfolio manager in the treasury operations of a major Canadian trust company where he managed a number of common and preferred share portfolios. Mr. Finch was also the portfolio manager for the Canada Trust Everest Dividend Fund from 1994 to 1996.

Laura L. Johnson is the Portfolio Manager and Managing Director of Quadravest. Ms. Johnson has over 12 years of experience in the financial services industry, including extensive experience with investment products employing investment strategies similar to those proposed by the Company. Prior to forming Quadravest with Mr. Finch, Ms. Johnson was employed in the structured finance, equity and fixed income areas at another investment management firm where she worked extensively on investment products employing investment strategies similar to those proposed by the Company.

Peter F. Cruickshank is the Chief Financial Officer and Managing Director of Quadrainvest. Mr. Cruickshank is a chartered accountant who has spent the last 19 years of his career in the investment industry. From 1986 to 1999, when he joined Quadrainvest, he was a director and the chief financial officer of another investment management firm.

### ***Investment Management Agreement***

The services to be provided by Quadrainvest pursuant to the Investment Management Agreement will include the making of all investment decisions for the Company and managing the Company's call option writing, all in accordance with the investment objectives, strategy and criteria of the Company. Decisions as to the purchase and sale of securities comprising the Portfolio and as to the execution of all portfolio and other transactions will be made by Quadrainvest. In the purchase and sale of securities for the Company and the writing of option contracts, Quadrainvest will seek to obtain overall services and prompt execution of orders on favourable terms.

Under the Investment Management Agreement, Quadrainvest 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 Quadrainvest will not be liable in any way for any default, failure or defect in or diminution in the value of any of the securities in the Portfolio if it has satisfied the standard of care, diligence and skill set forth above. Quadrainvest will incur liability for any breach of this standard of care.

The Investment Management Agreement, unless terminated as described below, will continue in effect until the final redemption of the Preferred Shares and Class A Shares on the Termination Date. The Company may terminate the Investment Management Agreement if Quadrainvest has committed certain events of bankruptcy or insolvency or is in material breach or default of the provisions of the agreement and such breach has not been cured within 30 days after notice of the breach has been given to Quadrainvest. Otherwise, Quadrainvest cannot be terminated as investment manager of the Company.

Except as set out below, Quadrainvest may not terminate the Investment Management Agreement or assign the same except to an affiliate of Quadrainvest, without shareholder approval. Quadrainvest may terminate the Investment Management Agreement if the Company is in material breach or default of the provisions thereof and such breach or default has not been cured within 30 days of notice of the breach or default to the Company or if there is a material change in the fundamental investment objectives, strategy or criteria of the Company.

If the Investment Management Agreement is terminated, the Board of Directors of the Company will promptly appoint a successor investment manager to carry out the activities of Quadrainvest until a meeting of shareholders of the Company is held to confirm such appointment.

Quadrainvest is entitled to fees for its services under the Investment Management Agreement as described under "Fees and Expenses" and will be reimbursed for all reasonable costs and expenses incurred by it on behalf of the Company. In addition, Quadrainvest and each of its directors, officers, employees and agents will be indemnified by the Company from and against all legal fees, judgments and amounts paid in settlement, actually and reasonably incurred by Quadrainvest or any of its officers, directors, employees or agents in the exercise of its duties as investment manager, unless those fees, judgments or amounts paid in settlement were incurred as a result of a breach by Quadrainvest of the standard of care described above and provided the Company has reasonable grounds to believe that the action or inaction that caused the payment of the fee, judgment or amount paid in settlement was in the best interests of the Company.

### ***Conflicts of Interest***

Quadrainvest is engaged in a variety of investment management, investment advisory and other business activities. The services of Quadrainvest under the Investment Management Agreement are not exclusive and nothing in the Investment Management Agreement prevents Quadrainvest or any of its affiliates from providing similar services to other investment funds and other clients (whether or not their investment objectives, strategies and policies are similar to those of the Company) or from engaging in other activities. Quadrainvest's investment decisions for the Company will be made independently of those made for its other clients and independently of its own investments. However, on occasion, Quadrainvest may make the same investment for the Company and for one or more of its other clients. If the Company and one or more of the other clients of Quadrainvest are engaged in the purchase or sale of the same security, the transactions will be effected on an equitable basis.

## DESCRIPTION OF SHARE CAPITAL

The Company is authorized to issue an unlimited number of Preferred Shares and Class A Shares and 1,000 Class B Shares of which, before giving effect to the Offering under this prospectus, there are issued and outstanding 1,000 Class B Shares. While the Preferred Shares and the Class A Shares are offered separately under this Prospectus, they will be issued only on the basis that an equal number of Preferred Shares and Class A Shares (together, a “Unit”) will be issued. The attributes of the Preferred Shares and Class A Shares are described under “Details of the Offering”.

The holders of Class B Shares are not entitled to receive dividends. The holders of the Class B Shares will be entitled to one vote per share. The Class B Shares are retractable at a price of \$1.00 per share and have a nominal liquidation entitlement of \$1.00 per share which will be paid to the holders of the Preferred Shares and the Class A Shares on the Termination Date. See “Principal Shareholder”. The Class B Shares rank subsequent to the Preferred Shares and prior to the Class A Shares with respect to such nominal liquidation entitlement on the dissolution, liquidation or winding-up of the Company.

The Company has no current intention of issuing additional Preferred Shares or Class A Shares following completion of the Offering, but is not precluded from doing so in the future, provided that without the approval of the holders of the Preferred Shares and Class A Shares the Company will not issue any additional Units, either in a public offering or by way of rights offering to existing holders, for aggregate net proceeds per Unit to the Company of less than the then-current Net Asset Value per Unit. The Company will not issue additional Class B Shares.

## DETAILS OF THE OFFERING

### Valuation of Assets

The Net Asset Value of the Company will be calculated by The Royal Trust Company (“Royal Trust” or the “Custodian”) as of each Retraction Date (as defined below) and as of the fifteenth day of each month or, if day is not a business day, the following business day (each, a “Valuation Date”) by subtracting the aggregate amount of the Company’s liabilities from its total assets, which are valued as follows:

- (a) the value of any cash on hand, on deposit or on call, prepaid expenses, cash dividends declared and interest accrued and not yet received, shall be deemed to be the face amount thereof, unless the Custodian determines that any such deposit or call loan is not worth the face amount thereof, in which event the value thereof shall be deemed to be such value as the Custodian determines to be the reasonable value thereof;
- (b) the value of any bonds, debentures, and other debt obligations shall be valued by taking the average of the bid and ask prices on a Valuation Date at such times as the Custodian, in its discretion, deems appropriate. Short-term investments including notes and money market instruments shall be valued at cost plus accrued interest;
- (c) the value of any security, index futures or index options thereon which is listed on any recognized exchange shall be determined by the sale price at the time of valuation or, if there is no sale price, the average between the bid and the asked price on the day on which the Net Asset Value of the Company is being determined, all as reported by any report in common use or authorized as official by a recognized stock exchange; provided that if such stock exchange is not open for trading on that date, then on the last previous date on which such stock exchange was open for trading;
- (d) the value of any security or other asset for which a market quotation is not readily available shall be its fair market value as determined by the Custodian;
- (e) the value of any security, the resale of which is restricted or limited, shall be the lesser of the value thereof based on reported quotations in common use and that percentage of the market value of securities of the same class, the trading of which is not restricted or limited by reason of any representation, undertaking or agreement or by law, equal to the percentage that the Company’s acquisition cost was of the market value of such securities at the time of acquisition; provided that a gradual taking into account of the actual value of the securities may be made where the date on which the restriction will be lifted is known;
- (f) purchased or written clearing corporation options, options on futures, over-the-counter options, debt-like securities and listed warrants shall be valued at the current market value thereof;

- (g) where a covered clearing corporation option, option on futures or over-the-counter option is written, the premium received by the Company shall be reflected as a deferred credit which shall be valued at an amount equal to the current market value of the clearing corporation option, option on futures or over-the-counter option that would have the effect of closing the position. Any difference resulting from revaluation shall be treated as an unrealized gain or loss on investment. The deferred credit shall be deducted in arriving at the Net Asset Value of the Company. The securities, if any, which are the subject of a written clearing corporation option, or over-the-counter option shall be valued at their then current market value;
- (h) the value of a futures contract, or a forward contract, shall be the gain or loss with respect thereto that would be realized if, at the time of valuation, the position in the futures contract, or the forward contract, as the case may be, were to be closed out unless daily limits are in effect in which case fair value shall be based on the current market value of the underlying interest;
- (i) margin paid or deposited in respect of futures contracts and forward contracts shall be reflected as an account receivable and margin consisting of assets other than cash shall be noted as held as margin;
- (j) all assets of the Company valued in a foreign currency and all liabilities and obligations of the Company payable by the Company in foreign currency shall be converted into Canadian funds by applying the rate of exchange obtained from the best available sources to the Custodian including, but not limited to, the Custodian or any of its affiliates; and
- (k) all expenses or liabilities (including fees payable to the Company) of the Company shall be calculated on an accrual basis.

The value of any security or property to which, in the opinion of the Custodian, the above valuation principles cannot be applied (whether because no price or yield equivalent quotations are available as above provided, or for any other reason) shall be the fair value thereof determined in such manner as the Custodian from time to time provides.

The Net Asset Value per Unit is the amount obtained by dividing the Net Asset Value of the Company as of a particular Valuation Date by the total number of Units outstanding on that date. The Net Asset Value per Unit, as of the most recent mid-month or month-end Valuation Date, will be provided by Quadravest to shareholders on request and will be available electronically at any time to shareholders at [www.primerateplus.com](http://www.primerateplus.com).

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

### ***Dividends***

The Company will pay, as and when declared by the Board of Directors of the Company, a cumulative preferential floating rate monthly dividend at an annual rate equivalent to interest at the Prime Rate plus 0.75% from time to time to holders of Preferred Shares of record on the last day of each month (each a "Dividend Record Date"). Such rate will be reset each month based, on the Prime Rate on the 15th day of each month or, if such day is not a business day, the next following business day (the "Reset Date"). Regardless of the Prime Rate, however, the minimum rate per annum at which dividends will be paid on the Preferred Shares is 5.0% and the maximum rate is 7.0%

The initial dividend on the Preferred Shares will be payable to shareholders of record on August 31, 2005 and, based on an anticipated closing date of July 15, 2005 (the "Closing Date"), is expected to be \$0.06575 per Preferred Share. Based on market conditions and the planned composition of the Portfolio, it is anticipated that such dividends will consist solely of ordinary dividends.

Dividends that are declared by the Board of Directors of the Company will be payable to holders of Preferred Shares of record at 5:00 p.m. (Eastern Standard Time) on the applicable Dividend Record Date with payment being made within 15 days thereafter. Each holder of Preferred Shares will be mailed annually, no later than February 28, information necessary to enable such shareholder to complete an income tax return with respect to amounts paid or payable by the Company in respect of the preceding calendar year. See "Canadian Federal Income Tax Considerations".

### ***Rating***

The Preferred Shares have been provisionally rated Pfd-2 by DBRS. Preferred shares rated Pfd-2 are of satisfactory credit quality. Generally, Pfd-2 ratings correspond with companies whose senior bonds are rated in the "A" category. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by DBRS.

### ***Payments on Termination***

All Preferred Shares outstanding on the Termination Date will be redeemed by the Company on such date. Immediately prior to the Termination Date, the Company will, to the extent possible, convert the Portfolio to cash and will pay or make adequate provision for all of the Company's liabilities. The Company will, to the extent possible, after receipt of the net cash proceeds of the liquidation of the Portfolio, distribute the original investment amount of \$10.00 per Preferred Share to holders of Preferred Shares through the redemption of the Preferred Shares as soon as practicable after the Termination Date.

### ***Retraction Privileges***

Preferred Shares may be surrendered at any time for retraction to Computershare Investor Services Inc. ("Computershare"), the Company's registrar and transfer agent, but will be retracted only as of last business day of each month (a "Retraction Date"). Preferred Shares surrendered for retraction by a shareholder at least 20 business days prior to a Retraction Date will be retracted and the holder will receive payment on or before the 15th business day following such Retraction Date (the "Retraction Payment Date"). If a holder of Preferred Shares makes such surrender after 5:00 p.m. (Eastern Standard Time) on the 20th business day immediately preceding a Retraction Date, the Preferred Shares will be retracted on the Retraction Date in the following month and the holder will receive payment for the retracted shares as of the Retraction Payment Date in respect of the Retraction Date in the following month.

Except as noted below, holders of Preferred Shares whose shares are surrendered for retraction will be entitled to receive a price per share (the "Preferred Share Retraction Price") equal to the lesser of (i) \$10.00 and (ii) 96% of the Net Asset Value per Unit determined as of the Retraction Date less the cost to the Company of the purchase of a Class A Share in the market for cancellation and less any other applicable costs. For this purpose, the cost of the purchase of a Class A Share will include the purchase price of the Class A Share and commissions and costs, if any (to a maximum of 1% of the Net Asset Value per Unit), related to the liquidation of any portion of the Portfolio to fund the purchase of the Class A Share and the payment of the Preferred Share Retraction Price. Any accrued or declared and unpaid dividends payable on or before a Retraction Date in respect of Preferred Shares tendered for retraction on such Retraction Date will also be paid on the Retraction Payment Date.

Commencing in July, 2006, shareholders also have an annual retraction right under which they may concurrently retract a Preferred Share and a Class A Share on the July Retraction Date in each year. The price paid by the Company for such a concurrent retraction will be equal to the Net Asset Value per Unit calculated as of that date, less any related commissions and other costs (to a maximum of 1% of the Net Asset Value per Unit) related to liquidating the Portfolio to pay such redemption amount.

As disclosed below under "— Resale of Preferred Shares Tendered for Retraction", if a holder of Preferred Shares tendered for retraction has not withheld his or her consent thereto in the manner provided in the retraction notice delivered to The Canadian Depository for Securities Limited ("CDS") through a participant in the CDS book-based system (a "CDS Participant"), the Company may, but is not obligated to, require the Recirculation Agent (as defined below) to use its best efforts to find purchasers for any Preferred Shares tendered for retraction prior to the relevant Retraction Payment Date pursuant to the Recirculation Agreement (as defined below). In such event, the amount to be paid to the holder of the Preferred Shares on the Retraction Payment Date will be an amount equal to the proceeds of the sale of the Preferred Shares less any applicable commission. Such amount will not be less than the Preferred Share Retraction Price. Holders of Preferred Shares are free to withhold their consent to such treatment and to require the Company to retract their Preferred Shares in accordance with their terms.

Subject to the Company's right to require the Recirculation Agent to use its best efforts to find purchasers prior to the relevant Retraction Payment Date for any Preferred Shares tendered for retraction, any and all Preferred Shares which have been surrendered to the Company for retraction are deemed to be outstanding until (but not after) the close of business on the relevant Retraction Date, unless the Preferred Share Retraction Price is not paid on the Retraction Payment Date, in which event such Preferred Shares will remain outstanding.

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

If any Preferred Shares are tendered for retraction and are not resold in the manner described below under “— Resale of Preferred Shares Tendered for Retraction”, the Company will, prior to the Retraction Payment Date, purchase for cancellation that number of Class A Shares which equals the number of Preferred Shares so retracted. Any Class A Shares so purchased for cancellation will be purchased in the market.

#### ***Resale of Preferred Shares Tendered for Retraction***

The Company has entered into an agreement dated June 28, 2005 (the “Recirculation Agreement”) with CIBC World Markets Inc. (the “Recirculation Agent”) and Computershare whereby the Recirculation Agent has agreed to use its best efforts to find purchasers for any Preferred Shares tendered for retraction prior to the relevant Retraction Payment Date, provided that the holder of the Preferred Shares so tendered has not withheld consent thereto. The Company is not obligated to require the Recirculation Agent to seek such purchasers but may elect to do so. In the event that a purchaser for such Preferred Shares is found in this manner, the notice of retraction will be deemed to have been withdrawn prior to the relevant Retraction Date and the Preferred Shares shall remain outstanding. The amount to be paid to the holder of the Preferred Shares on the relevant Retraction Payment Date will be an amount equal to the proceeds of the sale of the Preferred Shares less any applicable commission. Such amount will not be less than the applicable Preferred Share Retraction Price.

#### ***Priority***

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

#### **Certain Provisions of the Class A Shares**

##### ***Dividends and Distributions***

The Class A Share conditions provide that the Company may pay dividends on the Class A Shares in such amounts as are determined by the directors in their discretion. The initial policy of the Board of Directors of the Company is to pay floating rate monthly non-cumulative distributions to the holders of Class A Shares targeted to be at an annual rate equal to the Prime Rate plus 2.0% per annum. Regardless of the Prime Rate, however, the initial policy of the Board of Directors is that the minimum rate per annum at which dividends are targeted to be paid on the Class A Shares is 5.0% and the maximum rate is 10.0%. In addition, if any amounts remain available for the payment of dividends, a special year-end dividend of such amount will be payable to Class A Shareholders of record on the last day of November in each year.

No regular monthly dividends will be paid on the Class A Shares in any month as long as any dividends on the Preferred Shares are then in arrears or so long as the Net Asset Value per Unit (calculated as described under “Details of the Offering — Valuation of Assets”) is equal to or less than \$15.00. Additionally, it is currently intended that no special year-end dividends will be paid if after payment of such a dividend the Net Asset Value per Unit would be less than \$25.00.

The amount of distributions in any particular month will be determined by the Board of Directors of the Company on the advice of QuadraVest, having regard to the investment objectives of the Company, the net income and net realized capital gains of the Company during the month and in the year to date, the net income and net realized capital gains of the Company anticipated in the balance of the year, the Net Asset Value per Unit and distributions paid in previous monthly periods. Such distributions may consist of ordinary dividends, capital gains dividends or non-taxable returns of capital. There can be no assurances that the Company will be able to pay dividends or will elect to make returns of capital on the Class A Shares.

Distributions declared by the Board of Directors of the Company will be payable to holders of Class A Shares of record at 5:00 p.m. (Eastern Standard Time) on the applicable Dividend Record Date with payment being made within 15 days thereafter. Each holder of Class A Shares will be mailed annually, no later than February 28, information necessary to enable such shareholder to complete an income tax return with respect to amounts paid or payable by the Company in respect of the preceding calendar year. See “Canadian Federal Income Tax Considerations”.

##### ***Payments on Termination***

All Class A Shares outstanding on the Termination Date will be redeemed by the Company on such date. Immediately prior to the Termination Date, the Company will, to the extent possible, convert the Portfolio to cash and



pay or make provision for all of the Company's liabilities and will, to the extent possible, distribute to holders of the Preferred Shares the original investment amount for each Preferred Share then outstanding through the redemption of the Preferred Shares. The Company will return the initial investment amount of \$1,000 (\$1.00 per Class B Share) to the trust which holds such shares for the benefit of the holders of the Preferred Shares and Class A Shares upon the redemption of the Class B Shares on the Termination Date. Thereafter, the Company will distribute to holders of the Class A Shares the remaining assets of the Company, if any, as soon as practicable after the Termination Date.

### ***Retraction Privileges***

Class A Shares may be surrendered at any time for retraction to Computershare, but will be retracted only as of a Retraction Date. Class A Shares surrendered for retraction by a shareholder at least 20 business days prior to a Retraction Date will be retracted and the holder will receive payment on or before the Retraction Payment Date. If a holder of Class A Shares makes such surrender after 5:00 p.m. (Eastern Standard Time) on the 20th business day immediately preceding a Retraction Date, the Class A Shares will be retracted as of the Retraction Date in the following month and the holder will receive payment for the retracted shares on the Retraction Payment Date in respect of the Retraction Date in the following month.

Except as noted below, holders of Class A Shares whose shares are surrendered for retraction will be entitled to receive a retraction price per share ("Class A Share Retraction Price") equal to 96% of the Net Asset Value per Unit determined as of the Retraction Date less the cost to the Company of the purchase of a Preferred Share in the market for cancellation and less any other applicable costs. For this purpose, the cost of the purchase of a Preferred Share will include the purchase price of the Preferred Share and commissions and costs, if any (to a maximum of 1% of the Net Asset Value per Unit), related to the liquidation of any portion of the Portfolio to fund the purchase of the Preferred Share and the payment of the Class A Share Retraction Price. Any accrued or declared and unpaid dividends payable on or before a Retraction Date in respect of Class A Shares tendered for retraction on such Retraction Date will also be paid on the Retraction Payment Date.

Commencing in July, 2006, shareholders also have an annual retraction right under which they may concurrently retract a Preferred Share and a Class A Share on the July Retraction Date in each year. The price paid by the Company for such a concurrent retraction will be equal to the Net Asset Value per Unit calculated as of that date, less any related commissions and other costs (to a maximum of 1% of the Net Asset Value per Unit) related to liquidating the Portfolio to pay such redemption amount.

As disclosed below under "— Resale of Class A Shares Tendered for Retraction", if the holder of Class A Shares tendered for retraction has not withheld his consent thereto in the manner provided in the retraction notice delivered to CDS through a CDS Participant, the Company may, but is not obligated to, require the Recirculation Agent to use its best efforts to find purchasers for any Class A Shares tendered for retraction prior to the relevant Retraction Payment Date pursuant to the Recirculation Agreement. In such event, the amount to be paid to the holder of the Class A Shares on the Retraction Payment Date will be an amount equal to the proceeds of the sale of the Class A Shares less any applicable commission. Such amount will not be less than the Class A Share Retraction Price. Holders of Class A Shares are free to withhold their consent to such treatment and to require the Company to retract their Class A Shares in accordance with their terms.

Subject to the Company's right to require the Recirculation Agent to use its best efforts to find purchasers prior to the relevant Retraction Payment Date for any Class A Shares tendered for retraction, any and all Class A Shares which have been surrendered to the Company for retraction are deemed to be outstanding until (but not after) the close of business on the relevant Retraction Date, unless the Class A Share Retraction Price is not paid on the Retraction Payment Date, in which event such Class A Shares will remain outstanding.

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

If any Class A Shares are tendered for retraction and are not resold in the manner described below under "— Resale of Class A Shares Tendered for Retraction", the Company will, prior to the Retraction Payment Date, purchase for cancellation that number of Preferred Shares which equals the number of Class A Shares so retracted. Any Preferred Shares so purchased for cancellation will be purchased in the market.

### ***Resale of Class A Shares Tendered for Retraction***

Under the Recirculation Agreement, the Recirculation Agent has agreed to use its best efforts to find purchasers for any Class A Shares tendered for retraction prior to the relevant Retraction Payment Date, provided that the holder of the Class A Shares so tendered has not withheld consent thereto. The Company is not obligated to require the Recirculation Agent to seek such purchasers but may elect to do so. In the event that a purchaser for such Class A Shares is found in this manner, the notice of retraction shall be deemed to have been withdrawn prior to the relevant Retraction Date and the Class A Shares shall remain outstanding. The amount to be paid to the holder of the Class A Shares on the relevant Retraction Payment Date will be an amount equal to the proceeds of the sale of the Class A Shares less any applicable commission. Such amount will not be less than the applicable Class A Share Retraction Price.

### ***Priority***

The Class A Shares rank subordinate to the Preferred Shares and the Class B Shares with respect to the payment of dividends and the repayment of capital on the dissolution, liquidation or winding-up of the Company.

### ***Book-Based System***

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

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

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

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

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

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

## **Suspension of Retractions or Redemptions**

The Company may suspend the retraction or redemption of Preferred Shares and Class A Shares or payment of retraction or redemption proceeds during any period when normal trading is suspended on one or more stock exchanges on which more than 50% of the equity securities held by the Company are listed or, with the prior permission of the Ontario Securities Commission, for any period not exceeding 120 days during which the Company determines that conditions exist which render impractical the sale of assets of the Company or which impair the ability of the Company to determine the value of the assets of the Company. The suspension may apply to all requests for retraction received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All shareholders making such requests shall be advised by the Company of the suspension and that the retraction will be effected at a price determined on the first Valuation Date following the termination of the suspension. All such shareholders shall have and shall be advised that they have the right to withdraw their requests for retraction. The suspension shall terminate in any event on the first day on which the condition giving rise to the suspension has ceased to exist provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Company, any declaration of suspension made by the Company shall be conclusive.

## **SHAREHOLDER MATTERS**

### **Meetings of Shareholders**

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

### **Acts Requiring Shareholder Approval**

The following matters require the approval of the holders of Preferred Shares and Class A Shares by a two-thirds majority vote (other than matters referred to in paragraphs (c), (g) and (h), which require approval of a simple majority vote) at a meeting called and held for such purpose:

- (a) a change in the fundamental investment objectives and strategy of the Company;
- (b) a change in the investment criteria of the Company as described under “Investment Information — Investment Criteria”;
- (c) the entering into by the Company of transactions involving derivatives, other than as described in this prospectus and other than the use of derivatives permitted a mutual fund under NI 81-102;
- (d) any change in the basis of calculating fees or other expenses that are charged to the Company which could result in an increase in charges to the Company other than a fee or expense charged by a person or company that is at arm’s length to the Company and in respect of which holders of Preferred Shares and Class A Shares are sent a written notice at least 60 days before the effective date of such change (for purposes of this provision, the Manager and QuadraVest shall be deemed to not be at arm’s length to the Company);
- (e) the introduction of a fee or expense to be charged to the Company or directly to shareholders by the Company or the Manager in connection with the holding of securities of the Company that could result in an increase in charges to the Company or its shareholders;
- (f) except as described in this prospectus, a change in the investment manager or manager of the Company, other than a change resulting in an affiliate of such person assuming such position;
- (g) a decrease in the frequency of calculating the Net Asset Value or of retraction privileges;
- (h) a change of the auditors of the Company, unless such change does not require shareholder approval under applicable securities legislation;
- (i) a termination of the Investment Management Agreement (except as described under “Management of the Company — The Investment Manager — Investment Management Agreement”);
- (j) any merger of the Company for which shareholder approval under NI 81-102 would be required; and
- (k) an amendment, modification or variation in the provisions or rights attaching to the Preferred Shares, Class A Shares or Class B Shares.

Each Preferred Share and Class A Share will have one vote at such a meeting and will not vote separately as a class in respect of any vote taken (except for a vote in respect of the matters referred to in paragraphs (a), (b) and (k) above and any other matters referred to above if a class is affected by the matter in a manner different from the other classes of shares of the Company). Ten per cent of the outstanding Preferred Shares and Class A Shares, respectively, represented in person or by proxy at the meeting will constitute a quorum. If no quorum is present, the holders of Preferred Shares and Class A Shares then present will constitute a quorum at an adjourned meeting.

#### ***Deferral of Final Redemption Beyond Termination Date***

Not less than six months nor more than 12 months prior to the Termination Date, the Manager may present a proposal to shareholders providing for a deferral of the final redemption of the Preferred Shares or of the Class A Shares, or both, to a date that is later than the Termination Date. Such proposal may include, without limitation, a proposal (i) to continue the Company beyond the Termination Date, or (ii) to exchange the Preferred Shares or Class A Shares for securities of one or more mutual funds or closed-end investment funds on or after the Termination Date. Holders of each class of shares will be entitled to vote separately as a class on any such proposal, unless the proposal provides for the continuation of only the Class A Shares and that the holders of Preferred Shares will receive \$10.00 per Preferred Share, in which event only holders of Class A Shares will be entitled to vote on the proposal. In the event that a proposal to delay the final redemption beyond the Termination Date is approved, the redemption will be deferred until that later specified date. In the event of the approval of the proposal referred to above, any dissenting shareholder may require the Company to redeem all (but not less than all) of his or her Preferred Shares or Class A Shares on the Termination Date at a price per Preferred Share or per Class A Share equal to the amount such holder would have been entitled to on the Termination Date, in the absence of such proposal.

#### **Reporting to Shareholders**

The Company will deliver (or, if permitted by law, make available) to each shareholder annual and semi-annual financial statements of the Company or such other statements as may be required by law.

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

In the opinion of Blake, Cassels & Graydon LLP, counsel to the Company, and Osler, Hoskin & Harcourt LLP, counsel to the Agents (as defined below), the following is a summary of the principal Canadian federal income tax considerations generally relevant to investors who, for purposes of the Tax Act, are resident in Canada, deal at arm's length with the Company, hold their Preferred Shares and Class A Shares as capital property, and are not affiliated with the Company. This summary is based upon the facts set out in this prospectus, the current provisions of the Tax Act, the regulations thereunder, and counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency ("CRA") publicly available prior to the date hereof and relies as to certain factual matters on certificates of an officer of the Company, QuadraVest and CIBC World Markets Inc.

This summary is based on the assumptions that:

- (a) the Preferred Shares, the Class A Shares and the shares of Portfolio Companies will at all times be listed on a prescribed stock exchange in Canada (which currently includes the TSX);
- (b) the Company was not established and will not be maintained primarily for the benefit of non-residents of Canada and at no time will the total fair market value of the shares of the Company held by persons who are non-residents of Canada and/or partnerships (other than Canadian partnerships within the meaning of the Tax Act) exceed 50% of the fair market value of all of the outstanding shares of the Company;
- (c) the issuers of securities in the Portfolio will not be foreign affiliates of the Company or any shareholder;
- (d) the investment objectives and permitted investments will at all relevant times be as set out under "Investment Information — Investment Criteria" and that the Company will at all times comply with such investment objectives and permitted investments; and
- (e) the securities in the Portfolio will not be participating interests in foreign investment entities within the meaning of the Notice of Ways and Means Motion to Amend the Tax Act, tabled in the House of Commons on October 30, 2003.

This summary also takes into account specific proposals to amend the Tax Act announced prior to the date hereof by the Minister of Finance (the “Proposed Amendments”). No assurances can be given that the Proposed Amendments will become law.

**This summary is not exhaustive of all possible federal income tax considerations and does not take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, other than the Proposed Amendments. This summary does not deal with foreign, provincial or territorial income tax considerations, which may differ from the federal considerations. This summary does not apply to shareholders that are “financial institutions” as defined in section 142.2 of the Tax Act.**

**This summary is of a general nature only and does not constitute legal or tax advice to any particular investor. Prospective investors are advised to consult their own tax advisors with respect to their individual circumstances and in particular the draft proposals to amend the Tax Act released on October 31, 2003 relating to the deductibility of interest and other expenses (the “October 31 Proposals”).**

### **Tax Treatment of the Company**

The Company will qualify, and intends at all relevant times to qualify, as a “mutual fund corporation” as defined in the Tax Act. The Company has informed counsel that it intends to file the necessary election under the Tax Act so that it will be deemed to be a “public corporation” and therefore can qualify as a mutual fund corporation throughout its first taxation year. As a mutual fund corporation, the Company is entitled in certain circumstances to a refund of tax paid by it in respect of its net realized capital gains. In certain circumstances where the Company has recognized a capital gain in a taxation year, it may elect not to pay capital gains dividends in that taxation year in respect thereof and instead pay refundable capital gains tax, which may in the future be fully or partially refundable upon the payment of sufficient capital gains dividends and/or capital gains redemptions. Also, 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 (“capital gains dividends”) which are treated as capital gains in the hands of the shareholders of the Company (see “— Tax Treatment of Shareholders” below).

The Company will be required to include in computing its income all dividends received. In computing its taxable income, the Company will generally be entitled to deduct all taxable dividends received on shares of taxable Canadian corporations. Dividends received by the Company on other shares will, however, be included in computing the income of the Company, and will not be deductible in computing its taxable income.

The Company is a “financial intermediary corporation” (as defined in the Tax Act) and, as such, is not subject to tax under Part IV.1 of the Tax Act on dividends received by the Company nor is it generally liable to tax under Part VI.1 of the Tax Act on dividends paid by the Company on “taxable preferred shares” (as defined in the Tax Act). As a mutual fund corporation (which is not an “investment corporation” as defined in the Tax Act), the Company will generally be subject to a refundable tax of 33 $\frac{1}{3}$ % under Part IV of the Tax Act on taxable dividends received during the year to the extent such dividends are deductible in computing taxable income of the Company. This tax is fully refundable upon payment of sufficient dividends other than capital gains dividends (“Ordinary Dividends”) by the Company.

The Company will purchase shares in the Portfolio with the objective of earning dividends thereon over the life of the Company, and intends to treat and report transactions undertaken in respect of such shares on capital account. Generally, the Company will be considered to hold such shares on capital account 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.

In computing the adjusted cost base of any particular security, the Company will generally be required to average the cost of that security with the adjusted cost base of all other identical securities owned by the Company at the time of acquisition.

The Company will write covered call options with the objective of increasing the yield on the Portfolio beyond the dividends received on the Portfolio. In accordance with CRA’s published administrative practice, transactions undertaken by the Company in respect of such options will be treated and reported for purposes of the Tax Act on capital account.

Premiums received on call options written by the Company (to the extent such call options relate to securities actually owned by the Company at the time the option is written and such securities are held on capital account as

discussed above) will constitute capital gains of the Company in the year received, and gains or losses realized upon dispositions of securities owned by 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. Where a call option is exercised the proceeds received by the Company for the option will be included in the proceeds of disposition of the securities sold pursuant to the option and the premium received for such option will not give rise to a capital gain at the time the option is written.

To the extent that the Company earns income (other than dividends from taxable Canadian corporations and taxable capital gains) including interest or dividends from corporations other than taxable Canadian corporations, the Company will be subject to income tax on such income and no refund will be available in respect thereof.

The Company has advised counsel that it intends to elect in accordance with the Tax Act to have each of its “Canadian securities” (as defined in subsection 39(6) of the Tax Act) treated as capital property. Such an election will ensure that gains or losses realized by the Company on dispositions of Canadian securities will be taxed as capital gains or capital losses.

The October 31 Proposals were released by the Department of Finance for public comment and propose that the Tax Act be amended to require, for taxation years commencing after 2004, that there be a “reasonable expectation of cumulative profit” from a business or property in order for a taxpayer to deduct any loss incurred by the taxpayer from the business or property, and would provide that profit, for this purpose, does not include capital gains. The October 31 Proposals could potentially have an adverse effect on the deductibility by the Company of certain otherwise deductible expenses. On February 23, 2005, the Minister of Finance announced that an alternative proposal to replace the October 31 Proposals would be released for comment at an early opportunity. There can be no assurance that such alternative proposal will not adversely affect the Company.

### **Tax Treatment of Shareholders**

Shareholders must include in income Ordinary Dividends received from the Company. For individual shareholders, Ordinary Dividends will be subject to the usual gross-up and dividend tax credit rules with respect to taxable dividends paid by taxable Canadian corporations under the Tax Act. Ordinary Dividends received by a corporation other than a “specified financial institution” (as defined in the Tax Act) will normally be deductible in computing its taxable income.

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

Ordinary Dividends on Preferred Shares will generally be subject to a 10% tax under Part IV.1 of the Tax Act when such dividends are received by a corporation (other than a “private corporation” or a “financial intermediary corporation”, as defined in the Tax Act) to the extent that such dividends are deductible in computing the corporation’s taxable income. In the opinion of counsel, Ordinary Dividends on the Class A Shares should not be subject to Part IV.1 tax when received by such corporations; however, such corporations should consult their own tax advisors in this regard.

A shareholder which is a private corporation for purposes of the Tax 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 33 $\frac{1}{3}$ % refundable tax under Part IV of the Tax Act on Ordinary Dividends received on Class A Shares or Preferred Shares, to the extent that such dividends are deductible in computing the corporation’s taxable income. Where Part IV.1 tax also applies to an Ordinary Dividend received by a particular corporation on the Preferred Shares, the rate of Part IV tax payable by such corporation on such dividend is reduced to 23 $\frac{1}{3}$ %.

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

The initial policy of the Company is to pay monthly distributions and, in addition, to pay a special year-end dividend to holders of Class A Shares where the Company has net taxable capital gains upon which it would otherwise be subject to tax (other than taxable capital gains in respect of options that are outstanding at year end) or would not otherwise obtain a refund of refundable tax in respect of dividend income. Therefore, a person acquiring shares may become taxable on income and capital gains that accrued before such person acquired shares and on realized capital gains that have not been distributed before such time.

The Company may make returns of capital in respect of the Class A Shares. A return of capital in respect of a Class A Share will not be included in the income of the holder of the share, but will reduce the adjusted cost base of such share. To the extent that the adjusted cost base of a Class A Share would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the shareholder from the disposition of the share and the adjusted cost base will be increased by the amount of such deemed capital gain.

Upon the redemption, retraction or other disposition of a share, a capital gain (or a capital loss) will be realized to the extent that the proceeds of disposition of the share exceed (or are less than) the aggregate of the adjusted cost base of the share and any reasonable costs of disposition. If the holder is a corporation, any capital loss arising on the disposition of a share may in certain circumstances be reduced by the amount of any Ordinary Dividends received on the share. Analogous rules apply to a partnership or trust of which a corporation, partnership or trust is a member or beneficiary. For purposes of computing the adjusted cost base of each share of a particular class, a shareholder must average the cost of such share with the adjusted cost base of any shares of that class already held as capital property.

One-half of a capital gain is included in computing income as a taxable capital gain and one-half of a capital loss may be deducted against taxable capital gains to the extent and under the circumstances prescribed in the Tax Act. A shareholder that is a Canadian-controlled private corporation will be subject to an additional refundable tax of 6<sup>2</sup>/<sub>3</sub>% of aggregate investment income, which includes an amount in respect of taxable capital gains.

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

## **ELIGIBILITY FOR INVESTMENT**

In the opinion of Blake, Cassels & Graydon LLP, Toronto, and Osler, Hoskin & Harcourt LLP, the Preferred Shares and Class A Shares, if and when listed on a prescribed stock exchange, will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans (collectively, "Deferred Income Plans") and registered education savings plans and, provided the Company complies with its investment criteria, will not, based on the provisions of the Tax Act and the Regulations thereunder in force on the date hereof, be foreign property for purposes of the tax imposed under Part XI of the Tax Act on Deferred Income Plans and certain other persons including registered pension plans. On February 23, 2005, the Minister of Finance (Canada) proposed that the 30% limit in respect of foreign property that may be held by Deferred Income Plans and certain other persons including registered pension plans be eliminated for 2005 and subsequent calendar years, and this proposal was included in a bill which received third reading in the House of Commons on June 16, 2005 and second reading in the Senate on June 21, 2005. There can be no assurance that this proposal will be enacted. Prospective investors should consult their own tax advisors as to the effect of acquiring Preferred Shares or Class A Shares in a registered education savings plan.

## **USE OF PROCEEDS**

The net proceeds from the issue of the Preferred Shares and Class A Shares offered hereby (after payment of the Agents' fee and expenses of the issue) are estimated to be \$166,100,000 (assuming the minimum Offering) and \$380,300,000 (assuming the maximum Offering and assuming in each case that the Over-Allotment Option (as defined under "Plan of Distribution" below) is not exercised). These net proceeds will be used to invest in the Portfolio or other portfolio assets accordance with the investment objectives, strategy and restrictions of the Company as described under "Investment Information".

## PLAN OF DISTRIBUTION

Pursuant to an agreement dated as of June 28, 2005 (the “Agency Agreement”) between Quadravest, the Manager, the Company and CIBC World Markets Inc., RBC Dominion Securities Inc., TD Securities Inc., National Bank Financial Inc., Desjardins Securities Inc., HSBC Securities (Canada) Inc., Canaccord Capital Corporation, Dundee Securities Corporation, Raymond James Ltd., Bieber Securities Inc., First Associates Investments Inc., Richardson Partners Financial Limited, and Wellington West Capital Inc. (the “Agents”), the Agents have agreed to offer the Preferred Shares and Class A Shares for sale, as agents of the Company, on a best efforts basis, if, as and when issued by the Company. The offering prices for the Preferred Shares and the Class A Shares were established by negotiation between the Company and the Agents. The Agents will receive a fee equal to \$0.30 (3.0%) for each Preferred Share and \$0.90 (6.0%) for each Class A Share sold and will be reimbursed for out of pocket expenses incurred. The Agents may form a sub-agency group including other qualified investment dealers and determine the fee payable to the members of such group, which fee will be paid by the Agents out of their fee. While the Agents have agreed to use their best efforts to sell the Preferred Shares and Class A Shares offered under this prospectus, the Agents will not be obligated to purchase Preferred Shares and Class A Shares which are not sold.

The Company has granted the Agents an option (the “Over-Allotment Option”) to offer up to 2,400,000 additional Preferred Shares and 2,400,000 additional Class A Shares, which Preferred Shares and Class A Shares are qualified for sale under this prospectus. The Agents may exercise the Over-Allotment Option in whole or in part at any time on or before the close of business on the 30th day following the closing of the Offering and, to the extent the Over-Allotment Option is exercised, the additional Preferred Shares and Class A Shares will be offered by the Agents at the offering price under this prospectus and the Agents will be entitled to receive a fee of \$0.30 (3.0%) for each Preferred Share and \$0.90 (6.0%) for each Class A Share sold.

Proceeds from subscriptions received by the Company will be held in trust in segregated accounts by Computershare until the minimum amount of the Offering has been obtained. In the event that the minimum amount is not obtained, and the closing does not occur, subscription proceeds received from prospective purchasers will be returned promptly without interest or deduction. Under the terms of the Agency Agreement, the Agents may, at their discretion on the basis of their assessment of the state of the financial markets and upon the occurrence of certain stated events, terminate the Agency Agreement. Subscriptions for Preferred Shares and Class A Shares will be received subject to rejection or allotment in whole or in part. The right is reserved to close the subscription books at any time without notice. Closing is expected to occur on July 15, 2005, but no later than July 29, 2005.

The Preferred Shares and Class A Shares have not been and will not be registered under the United States *Securities Act of 1933*, as amended (the “U.S. Securities Act”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the U.S. Securities Act. The Agents have agreed that, except as permitted by the Agency Agreement, they will not offer or sell the Preferred Shares or Class A Shares within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the U.S. Securities Act.

Pursuant to policy statements of certain securities regulators, the Agents may not, throughout the period of distribution, bid for or purchase Preferred Shares and Class A Shares. The foregoing restriction is subject to certain exceptions, on the conditions that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Preferred Shares and Class A Shares. Such exceptions include a bid or purchase permitted under applicable by-laws and rules of the relevant self-regulatory authorities relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Pursuant to the first mentioned exception, in connection with the Offering, the Agents may over-allot or effect transactions which stabilize or maintain the market price of the Preferred Shares and Class A Shares at levels other than those which might otherwise prevail on the open market. In such event, an equal number of Preferred Shares and Class A Shares will be maintained. Such transactions, if commenced, may be discontinued at any time.



## CAPITALIZATION OF THE COMPANY

The capitalization of the Company at June 28, 2005 and at such date as adjusted to give effect to the issue and sale of the Preferred Shares and the Class A Shares offered under this prospectus, is set forth in the table below:

<u>Share Capital</u>	<u>Authorized</u>	<u>Outstanding as at June 28, 2005</u>	<u>To be outstanding as at June 28, 2005 after giving effect to the Offering<sup>(1)</sup></u> (unaudited)
Preferred Shares .....	Unlimited	Nil	\$160,000,000 (16,000,000 shares)
Class A Shares .....	Unlimited	Nil	\$240,000,000 (16,000,000 shares)
Class B Shares .....	1,000	\$1,000 (1,000 shares)	\$ 1,000 (1,000 shares)
Issue Costs .....		Nil	\$ (500,000)
<u>Total Capitalization</u> .....		<u>\$1,000</u>	<u>\$399,501,000</u>

(1) Assumes the maximum amount of the Offering.

## PRINCIPAL SHAREHOLDER

All of the issued and outstanding Class B Shares of the Company are owned by S. Wayne Finch and will, prior to Closing, be transferred to a trust (the “Trust”) of which S. Wayne Finch is the trustee and the holders of the Preferred Shares and Class A Shares from time to time are the beneficiaries. As a result, any amount payable in respect of the redemption of Class B Shares on the Termination Date will be paid to the holders of the Preferred Shares and Class A Shares on such date. The Class B Shares will be held in escrow by Royal Trust pursuant to an agreement to be entered into prior to Closing (the “Escrow Agreement”) between the Trust, Royal Trust and the Company and will not be disposed of or dealt with in any manner until all the Preferred Shares and Class A Shares have been retracted or redeemed, except in certain circumstances contemplated by the Escrow Agreement.

## FEES AND EXPENSES

### Initial Expenses

The expenses of the Offering (including the costs of creating and organizing the Company, the costs of printing and preparing this prospectus, legal expenses of the Company, marketing expenses and legal and other out of pocket expenses incurred by the Agents and certain other expenses), which are estimated to be \$500,000 will be paid by the Company out of the gross proceeds of the Offering; provided however, that the expenses of the Offering to be borne by the Company shall not exceed 1.5% of the gross proceeds of the Offering. In addition, the Agents’ fee will be paid to the Agents from the gross proceeds as described under “Plan of Distribution”.

### Fees and Other Expenses

Pursuant to the Management Agreement, the Manager is entitled to an administration fee payable monthly in arrears at an annual rate equal to 0.2% of the Company’s Net Asset Value calculated as at the last Valuation Date in each month, plus an amount equal to the service fee (the “Service Fee”) payable to dealers. The Company will also pay any goods and services taxes applicable to this administration fee.

The Manager will pay the Service Fee to each dealer whose clients hold Class A Shares. The Service Fee will be calculated and paid at the end of each calendar quarter and will be equal to 0.50% annually of the value of the Class A Shares held by clients of the dealer. For these purposes, the value of a Class A Share at any time is the Net Asset Value per Unit at such time less \$10.00. No Service Fee will be paid in any calendar quarter if regular dividends are not paid to holders of Class A Shares in respect of each month of such calendar quarter.

Pursuant to the terms of the Investment Management Agreement, QuadraVest is entitled to a base management fee payable monthly in arrears at an annual rate equal to 0.65% of the Company’s Net Asset Value calculated as at the last Valuation Date in each month.

Quadravest is also entitled to a performance fee equal to 20% of the total return per Unit of the Company for a financial year (which includes all cash distributions per Unit made during the year and any increase in the Net Asset Value per Unit from the beginning of the year after the deduction on a per Unit basis of all fees, other expenses and distributions) that exceeds 112% of the Bonus Threshold. The “Bonus Threshold”, for any financial year immediately following a year for which a performance fee is payable, is equal to the Net Asset Value per Unit at the beginning of that financial year. The “Bonus Threshold”, for any financial year immediately following a year for which a performance fee is not payable, is equal to the greater of (i) the Net Asset Value per Unit at the end of the immediately prior financial year; and (ii) the Bonus Threshold for the prior year, minus the Adjustment Amount. The “Adjustment Amount” for any financial year is the amount, if any, by which the Net Asset Value per Unit at the end of the immediately prior financial year plus dividends paid in that prior year exceeds the Bonus Threshold for that prior year.

No performance fee may be paid in any year if, at the end of such year, (i) the Net Asset Value per Unit is less than \$25.00; (ii) if the rating on the Preferred Shares is rated by DBRS at less than Pfd-2 (or, if DBRS has not then rated such shares, then the equivalent rating of another rating agency that has rated such shares shall apply); or (iii) if the Company has not earned a total annual return of at least the “Base Return” on a cumulative basis since inception. The Base Return in any year is the greater of 5% and the annual total return for such year as measured by the Scotia Capital 91-day T-Bill Index.

The T-Bill Index reflects income yields available to investors who acquire “risk-free” 91-day Treasury bills. The Manager believes that the T-Bill Index is an appropriate benchmark against which to assess the performance of the total return per Unit as the investment objective of the Company is to achieve targeted returns for the Preferred Shares and the Class A Shares. Although the actual returns may be achieved in part through the capital appreciation of equity securities, the principal objective, as evidenced by the Company’s intention to write covered call options, is to achieve the targeted returns and not to track the performance of an investment in the equity securities. As a result, the Manager believes that the most appropriate benchmark is one that focuses on yield and not on the investment performance of equity securities.

The performance fee, if payable, will be deducted from the amount otherwise payable to the holders of the Class A Shares. The Company will also pay any goods and services taxes applicable to the base management fee or the performance fee.

The Company will pay for all other expenses incurred in connection with the operation and administration of the Company, estimated to be approximately \$300,000 per annum. These expenses are expected to include, without limitation, mailing and printing expenses for periodic reports to shareholders; fees payable to the Custodian for acting as custodian of the assets of the Company and performing certain administrative services under the Custodian Agreement (as defined below); fees payable to Computershare, as registrar and transfer agent with respect to the Preferred Shares and Class A Shares; fees payable to the independent directors of the Company; fees payable to the auditors and legal advisors of the Company; regulatory filing and stock exchange fees (including any such fees payable by the Manager or Quadravest in respect of the services they provide to the Company); and expenditures incurred upon the dissolution of the Company. Such expenses will also include expenses of any action, suit or other proceedings in which or in relation to which the Manager or Quadravest is entitled to indemnity by the Company. See “Management of the Company”. The Company will also be responsible for all commissions and other costs of Portfolio transactions.

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

Quadravest and the Manager will receive the fees described under “Fees and Expenses” for their respective services to the Company and will be reimbursed by the Company for all expenses incurred in connection with the operation and administration of the Company. S. Wayne Finch controls the Manager, which in turn owns all of the voting shares of Quadravest. In accordance with the requirements of the provincial securities regulatory authorities in connection with the Offering, Quadravest and the Manager have each undertaken to file, and have agreed to cause their directors and senior officers to file, insider trading reports as if the Company was not a mutual fund, in accordance with applicable securities legislation in respect of trades made by it or those directors and senior officers in shares of the Company.

The senior officers and directors of the Company have also undertaken 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 has undertaken that it will not elect or appoint any person in the future as a senior officer or director unless such person undertakes 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. The foregoing undertakings shall remain in full force until such time as, in the case of the undertaking of Quadravest and the Manager, the voting shares of the Company are not controlled directly or indirectly by Mr. Finch; in the case of the undertakings of a director or senior officer of the Company, such person ceases to be a director or officer of the Company; or in each case all of the Preferred Shares and Class A Shares have been redeemed or retracted.

### **MATERIAL CONTRACTS**

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

- (a) the Management Agreement described under “Management of the Company — The Manager”;
- (b) the Investment Management Agreement described under “Management of the Company — The Investment Manager — Investment Management Agreement”;
- (c) the Agency Agreement described under “Plan of Distribution”;
- (d) the Recirculation Agreement described under “Details of the Offering”; and
- (e) the Custodian Agreement described under “Registrar and Transfer Agent, Custodian and Auditors”.

Copies of the foregoing agreements, after they have been signed, may be inspected during business hours at the principal office of the Company during the course of distribution of the Preferred Shares and Class A Shares offered under this prospectus.

### **RISK FACTORS**

The following are certain considerations relating to an investment in Preferred Shares or Class A Shares which prospective investors should consider before purchasing such shares. There can be no assurance that the Company will be successful in meeting its dividend and capital repayment objectives, and the Preferred Shares and Class A Shares may trade in the market at a premium or discount to their proportionate shares of the Company’s Net Asset Value.

#### **Operating History**

The Company is a newly organized investment company with no previous operating history and there is currently no public market for the Preferred Shares or Class A Shares.

#### **Interest and Rate Fluctuations**

It is anticipated that the market price of the Preferred Shares and Class A Shares will, at any time, be affected by the level of interest rates prevailing at such time. A rise in interest rates may have a negative effect on the market price of the Preferred Shares and Class A Shares. As the dividends payable on the Preferred Shares and Class A Shares generally increase with rises in interest rates, this is expected to mitigate this risk to the extent the Company is able to pay dividends at the increased rates.

#### **Performance of the Portfolio Companies and Other Conditions**

The value of the Portfolio will be influenced by factors which are not within the control of the Company, including the performance of the Portfolio Companies, their dividend payment policies and financial market and economic conditions generally. A substantial drop in the Canadian or United States equities markets could be expected to have a negative effect on the Company. If such drop were to lead to a significant decline in the value of the Portfolio, the Company could be prohibited from paying regular monthly or special annual dividends on the Class A Shares.

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

The Company is subject to the full risk of its investment position in the shares of the Portfolio Companies, including those shares that are subject to outstanding call options, should the market price of the common shares decline. In addition, the Company will not participate in any gain on the common shares that are subject to outstanding call options above the strike price of the options.

There can be no assurance that a liquid exchange or over-the-counter market will exist to permit the Company to write covered call options on desired terms or to close out option positions should Quadravest desire to do so. In

purchasing call options, the Company is subject to the credit risk that its counterparty (whether a clearing corporation in the case of exchange traded instruments, or other third party in the case of over-the-counter instruments) may be unable to meet its obligations. 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.

### **Net Asset Value and Distributions**

The Net Asset Value of the Company and the funds available for distribution to shareholders will vary, among other things, according to the value of the common shares in the Portfolio, the dividends paid on those shares and the level of option premiums received. Although many investors and financial market professionals price call options based on the Black-Scholes Model, in practice actual option premiums are determined in the marketplace. There can be no assurance that the Company will be able to achieve its objectives of paying monthly dividends. In addition, a decline in the market price of the shares in the Portfolio may adversely affect the rating on the Preferred Shares, which in turn may have an adverse impact on the market price or demand for such shares. Similarly, a decline in the market price of the shares in the Portfolio may restrict the ability of the Company to pay dividends on the Class A Shares (see “Details of the Offering — Certain Provisions of the Class A Shares”), which in turn may have an adverse impact on the market price or demand for such shares.

### **Reliance on the Investment Manager**

Quadravest will manage the Portfolio in a manner consistent with the investment objectives, strategy and criteria of the Company. The officers of Quadravest who will be primarily responsible for the management of the Portfolio have extensive experience in managing investment portfolios. There is no certainty that such individuals will continue to be employees of Quadravest throughout the term of the Company.

### **Conflicts of Interest**

Quadravest is engaged in a variety of investment management, investment advisory and other business activities. The services of Quadravest under the Investment Management Agreement are not exclusive and nothing in the Investment Management Agreement prevents Quadravest or any of its affiliates from providing similar services to other investment funds and other clients (whether or not their investment objectives, strategies and policies are similar to those of the Fund) or from engaging in other activities. Quadravest’s investment decisions for the Fund will be made independently of those made for its other clients and independently of its own investments. However, on occasion, Quadravest may make the same investment for the Company and for one or more of its other clients. If the Company and one or more of the other clients of Quadravest are engaged in the purchase or sale of the same security, the transactions will be effected on an equitable basis.

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

In determining its income for tax purposes, the Company will treat gains and losses realized on the disposition of securities in the Portfolio, option premiums received on the writing of covered call options and any losses sustained on closing out options as capital gains and capital losses in accordance with CRA’s published administrative practice. CRA’s practice is not to grant advance income tax rulings on the character of items as capital or income and no advance income tax ruling has been applied for or received from CRA.

If, contrary to CRA’s published administrative practice, some or all of the transactions undertaken by the Company in respect of options and securities in the Portfolio were treated on income rather than capital account, after-tax returns to holders of Class A Shares and Preferred Shares could be reduced and the Company may be subject to non-refundable income tax in respect of income from such transactions and the Company may be subject to penalty taxes in respect of excessive capital gains dividend elections.

### **Tax Proposals Regarding Mutual Fund Corporation Status**

The tax treatment of the Company and its shareholders depends in part upon the Company being a “mutual fund corporation” for tax purposes. On September 16, 2004, the Minister of Finance for Canada released certain proposals to amend the Tax Act (the “September Tax Proposals”) pursuant to which a corporation, such as the Company, would lose its status as a mutual fund corporation if at any time after 2004 the aggregate fair market value of all issued and outstanding shares of the corporation held by one or more non-resident persons and/or by partnerships which are not

Canadian partnerships for purposes of the Tax Act is more than 50% of the aggregate fair market value of all the issued and outstanding shares of the corporation unless no more than 10% (based on fair market value) of the corporation's property is at any time taxable Canadian property and certain other types of specified property. The September Tax Proposals currently do not provide any means of rectifying the loss of mutual fund corporation status. On December 6, 2004, such Minister tabled a Notice of Ways and Means Motion to implement measures proposed in the 2004 Budget. Such Motion was incorporated into Bill C-33, which received Royal Assent on May 13, 2005. Such Notice did not include the September Tax Proposals and this fact was specifically referred to in the accompanying release.

The Preferred Shares and Class A Shares of the Company are marketed only in Canada, and provided the Company complies with its investment criteria and restrictions, it is not anticipated that more than 10% of the fair market value of the Company's assets will at any time consist of taxable Canadian property and such other specified property, with the result that the Manager does not anticipate that the September Tax Proposals (even if enacted in their current form) would lead to a loss of mutual fund corporation status for the Company.

### **Suspension of Retractions**

The Company may suspend the retraction of Preferred Shares and Class A Shares or payment of retraction proceeds during any period when normal trading is suspended on any stock exchange within or outside Canada on which securities of the Company are listed which represent more than 50% by value of the total assets of the Company without allowance for liabilities for any period not exceeding 120 days during which the Company determines that conditions exist which render impractical the sale of assets of the Company or which impair the ability of the Company to determine the value of the assets of the Company. In the event of a suspension of retractions, holders of Preferred Shares and Class A Shares would experience reduced liquidity. See "Details of the Offering — Suspension of Retractions".

### **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 under this prospectus will be passed upon by Blake, Cassels & Graydon LLP, Toronto, on behalf of the Company, and by Osler, Hoskin & Harcourt LLP, on behalf of the Agents.

### **PROMOTER**

Quadravest has taken the initiative in organizing the Company and accordingly is a "promoter" of the Company within the meaning of applicable securities legislation. Quadravest will receive fees from the Company and will be entitled to reimbursement of expenses incurred in relation to the Company as described under "Fees and Expenses".

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

Pursuant to a Registrar and Transfer Agency Agreement to be entered into on or before the closing of this Offering, Computershare, at its principal office in Toronto, will be appointed the registrar and transfer agent for the Preferred Shares and the Class A Shares.

Pursuant to an agreement (the "Custodian Agreement") to be entered into on or before the closing of this Offering, Royal Trust will be the custodian of the assets of the Company and is also responsible for certain aspects of the day-to-day administration of the Company, including processing retractions, calculating Net Asset Value and maintaining the fund valuation books and records of the Company. The address of the Royal Trust is 77 King Street West, 11th Floor, Royal Trust Tower, Toronto-Dominion Centre, Toronto, Ontario M5W 1P9 Attention: International Investment Products. Royal Trust will not have any responsibility or liability for any assets of the Company which it does not directly hold or have control over (including through its sub-custodians), including, without limitation, any assets of the Company pledged to a counterparty pursuant to derivatives transactions entered into by the Company, if any. Royal Trust is entitled to receive fees from the Company and to be reimbursed for all expenses and liabilities which are properly incurred by Royal Trust in connection with the activities of the Company.

The auditors of the Company are PricewaterhouseCoopers LLP, 77 King Street West, Toronto, Ontario M5K 1G8.

### **PURCHASER'S STATUTORY RIGHTS**

Securities legislation in several of the provinces of Canada provides a purchaser with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided such 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' CONSENT**

We have read the prospectus dated June 28, 2005 (the "Prospectus") of Prime Rate Plus Corp. (the "Company") relating to an offer of up to 16,000,000 Preferred Shares and 16,000,000 Class A Shares of the Company. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned Prospectus of our report dated June 28, 2005 to the Board of Directors of the Company on the statement of financial position of the Company as at June 28, 2005.

Toronto, Ontario

June 28, 2005

PricewaterhouseCoopers LLP  
Chartered Accountants

## AUDITORS' REPORT

To the Directors of  
PRIME RATE PLUS CORP.:

We have audited the statement of financial position of Prime Rate Plus Corp. (the "Company") as at June 28, 2005. This statement of financial position is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial position based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, this statement of financial position presents fairly, in all material respects, the financial position of the Company as at June 28, 2005 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada

June 28, 2005

PricewaterhouseCoopers LLP  
Chartered Accountants



**PRIME RATE PLUS CORP.**  
**STATEMENT OF FINANCIAL POSITION**  
June 28, 2005

<b>ASSETS</b>	
Cash .....	<u>\$1,000</u>
<b>SHAREHOLDER'S EQUITY</b>	
Class B Shares (1,000 shares) .....	<u>\$1,000</u>

Approved by the Board:

(Signed) S. WAYNE FINCH  
Director

(Signed) PETER F. CRUICKSHANK  
Director

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

## PRIME RATE PLUS CORP.

### NOTES TO FINANCIAL STATEMENT

#### 1. ORGANIZATION AND SHARE CAPITAL

Prime Rate Plus Corp. (the "Company") was established under the laws of the Province of Ontario by articles of incorporation dated May 25, 2005.

The Company is authorized to issue an unlimited number of Preferred Shares, an unlimited number of Class A Shares and 1,000 Class B Shares. On May 25, 2005, the Company issued 1,000 Class B Shares to S. Wayne Finch, a director of the Company and the Manager for \$1,000 cash. Such shares will, prior to Closing, be transferred to a trust of which S. Wayne Finch is the trustee and the holders of the Preferred Shares and Class A Shares from time to time are the beneficiaries.

#### 2. AGENCY AND CUSTODIAN AGREEMENTS

The Company has engaged CIBC World Markets Inc., RBC Dominion Securities Inc., TD Securities Inc., National Bank Financial Inc., Desjardins Securities Inc., HSBC Securities (Canada) Inc., Canaccord Capital Corporation, Dundee Securities Corporation, Raymond James Ltd., Bieber Securities Inc., First Associates Investments Inc., Richardson Partners Financial Limited, and Wellington West Capital Inc. to offer for sale to the public pursuant to a prospectus dated June 28, 2005 the Preferred Shares and the Class A Shares described in Note 1.

The Company will retain The Royal Trust Company (the "Custodian") under a custody agreement to act as custodian of the assets of the Company and to be responsible for certain aspects of the Company's day-to-day operations. In consideration for the services provided by the Custodian, the Company will pay the Custodian a monthly fee as set out in the custody agreement.

#### 3. MANAGEMENT AND INVESTMENT MANAGEMENT AGREEMENTS

The Company has retained Quadravest Inc. (the "Manager") under a management agreement dated as of June 28, 2005 to act as the manager of the Company and has retained Quadravest Capital Management Inc. ("Quadravest"), under an investment management agreement dated as of June 28, 2005 to act as the investment manager of the Company. Pursuant to such agreements, the Manager is entitled to an administration fee payable monthly in arrears at an annual rate of 0.2% of the net asset value ("Net Asset Value") of the Company calculated as at the last valuation date in each month, plus an amount equal to the service fee (the "Service Fee") discussed below.

Quadravest is entitled to a base management fee payable monthly in arrears at an annual rate of 0.65% of the Net Asset Value of the Company calculated as at the last valuation date in each month.

In addition, Quadravest is entitled to a performance fee equal to 20% of the total return per unit (consisting of one Preferred Share and one Class A Share) of the Company (a "Unit") for a financial year that exceeds 112% of the "Bonus Threshold". The Bonus Threshold, for any financial year immediately following a year for which a performance fee is payable, is equal to the Net Asset Value per Unit at the beginning of that financial year. The Bonus Threshold, for any financial year immediately following a year for which a performance fee is not payable, is equal to the greater of (i) the Net Asset Value per Unit at the end of the immediately prior financial year; and (ii) the Bonus Threshold for the prior year, minus the "Adjustment Amount". The Adjustment Amount for any financial year is the amount, if any, by which the Net Asset Value per Unit at the end of the immediately prior year plus dividends paid in that prior year exceeds the Bonus Threshold for that prior year. No performance fee may be paid in any year if, at the end of such year, (i) the Net Asset Value per Unit is less than \$25.00; (ii) the rating on the Preferred Shares is rated by Dominion Bond Rating Service Limited at less than Pfd-2 (or, if Dominion Bond Rating Service Limited has not rated such shares, then the equivalent ratings of another rating agency that has rated such shares shall apply); or (iii) the Company has not earned an annualized total return of at least the "Base Return" on a cumulative basis since inception. The Base Return in any year is the greater of (i) 5%; and (ii) the annual total return for such year as measured by the Scotia Capital 91-Day T-Bill Index.

In addition, the Company will pay to the Manager an amount equal to the Service Fee, to be paid by the Manager to each dealer whose clients hold Class A Shares. The Service Fee will be calculated and paid at the end of each calendar quarter and will be equal to 0.50% annually of the value of the Class A Shares held by clients of the dealer. For these purposes, the value of a Class A Share is the Net Asset Value per Unit less \$10.00. No Service Fee will be paid in any calendar quarter if regular dividends are not paid to holders of Class A Shares in respect of each month in such calendar quarter.

**CERTIFICATES OF THE COMPANY AND THE PROMOTER**

Dated: June 28, 2005

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

(Signed) S. WAYNE FINCH  
President and Chief Executive Officer

(Signed) PETER F. CRUICKSHANK  
Chief Financial Officer

On behalf of the Board of Directors

(Signed) LAURA L. JOHNSON  
Director

(Signed) WILLIAM C. THORNHILL  
Director

QUADRAVEST CAPITAL MANAGEMENT INC.  
As Promoter

(Signed) S. WAYNE FINCH  
President and Chief Executive Officer

**CERTIFICATE OF THE AGENTS**

Dated: June 28, 2005

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

**CIBC WORLD MARKETS INC.**

(Signed) RONALD W.A. MITCHELL

**RBC DOMINION SECURITIES INC.**

(Signed) EDWARD V. JACKSON

**TD SECURITIES INC.**

(Signed) J. DAVID BEATTIE

**NATIONAL BANK FINANCIAL INC.**

(Signed) MICHAEL D. SHUH

**DESJARDINS SECURITIES INC.**

(Signed) BETH A. SHAW

**HSBC SECURITIES (CANADA) INC.**

(Signed) CATHERINE J. CODE

**CANACCORD CAPITAL  
CORPORATION**

(Signed) WILLIAM G. MCILROY

**DUNDEE SECURITIES  
CORPORATION**

(Signed) BRETT WHALEN

**RAYMOND JAMES LTD.**

(Signed) SARA MINATEL

**BIEBER SECURITIES INC.**

(Signed) CLAUDE TÉTRAULT

**FIRST ASSOCIATES  
INVESTMENTS INC.**

(Signed) PATRICK S. LEUNG

**RICHARDSON PARTNERS  
FINANCIAL LIMITED**

(Signed) CLANCY ETHANS

**WELLINGTON WEST  
CAPITAL INC.**

(Signed) BRENT BOTTOMLEY

