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PROSPECTUS

Initial Public Offering

January 29, 2002



**Maximum \$150,000,000 (15,000,000 Trust Units)**

Brompton VIP Income Trust (the "Trust"), a closed-end investment trust established under the laws of the Province of Ontario, proposes to offer (the "Offering") transferable, redeemable trust units ("Trust Units") of the Trust at a price of \$10.00 per Trust Unit (the "Offering Price"). The minimum subscription is 200 Trust Units. Additional subscriptions above the minimum subscription may be made in multiples of single Trust Units.

The investment objectives ("Investment Objectives") of the Trust are to provide holders of Trust Units ("Unitholders") with a high level of income through receipt of monthly distributions in a tax efficient manner initially targeted to yield approximately 0.8125% per month or 9.75% per annum based on the Offering Price of the Trust Units, enhance performance by reducing the risk of investing in high income securities through diversification, careful selection and active management of the Trust's assets and preserve the value of the Trust assets over the life of the Trust.

The Trust will seek to achieve its Investment Objectives by diligently selecting and actively managing a diversified portfolio of high income securities across a broad range of specialized investment vehicles in various industries and geographic areas (singularly a "Trust Investment" and collectively, the "Trust Investments"). Trust Investments will be primarily comprised of specialty high income securities, many of which provide tax advantaged sources of income, such as units of royalty trusts, income funds and real estate investment trusts, together with high yielding debt or debt-like securities and other high income investments (collectively the "High Income Investments"). Following closing, the net proceeds from the Offering of the Trust Units together with amounts borrowed by the Trust will be used to invest in High Income Investments in accordance with the investment objectives and investment strategy of the Trust. In order to provide the Trust with a prudent level of leverage to enhance the Trust's yield, the Trust intends to borrow an amount equal to approximately 20% of the total assets of the Trust for the purpose of acquiring additional High Income Investments. Brompton VIP Management Limited (the "Manager") is the manager of the Trust. The Manager has engaged Elliott & Page Limited (the "Advisor"), an investment counsel and portfolio manager, to select and manage the Trust Investments which will vary, from time to time, based on the Advisor's assessment of market conditions and outlook. An affiliate of the Manager will subscribe for a minimum of 250,000 Trust Units at a cost of \$2,500,000 pursuant to the Offering.

**Price: \$10.00 per Trust Unit**  
**(Minimum Purchase: 200 Trust Units)**

	<b>Price to the Public</b>	<b>Agents' Fees</b>	<b>Net Proceeds to the Trust<sup>(1)</sup></b>
Per Trust Unit . . . . .	\$10.00	\$0.55	\$9.45
Minimum Total Offering <sup>(2)(3)</sup> . . . . .	\$40,000,000	\$2,200,000	\$37,800,000
Maximum Total Offering <sup>(3)</sup> . . . . .	\$150,000,000	\$8,250,000	\$141,750,000

Notes:

- (1) Before deducting the expenses of the Offering, estimated to be \$600,000, which, together with the Agents' fees, will be paid by the Trust from the proceeds of the Offering.
- (2) There will be no closing unless a minimum of 4,000,000 Trust Units are sold.
- (3) The Trust has granted to the Agents (as hereinafter defined) an option (the "Over-Allotment Option"), exercisable for a period of 30 days from the closing of the Offering, to purchase additional Trust Units in an amount equal to 15% of the aggregate number of Trust Units sold on the closing of the Offering on the same terms as set forth above, solely to cover over-allotments, if any. If the Over-Allotment Option is exercised in full, under the maximum Offering, the price to the public, Agents' fees and net proceeds will be \$172,500,000, \$9,487,500 and \$163,012,500, respectively. This prospectus also qualifies the distribution of the Trust Units issuable on the exercise of the Over-Allotment Option. See "Plan of Distribution".

Advisor

Commencing in the third month following the month in which the closing of the Offering occurs, and on a monthly basis thereafter, Unitholders will be entitled to receive cash distributions declared by the Manager if they are Unitholders of record on the relevant record date for such distribution. Distributions will be made on the tenth business day following the record date for such distribution. The Trust intends to make monthly distributions which will initially be targeted at \$0.08125 per Trust Unit. See “Distributions and Reinvestment”.

Subject to obtaining all necessary regulatory approvals, Unitholders may elect to reinvest their distributions to acquire additional Trust Units and to purchase additional Trust Units for cash. See “Distributions and Reinvestment”.

Trust Units may be surrendered for redemption at any time during December of any year, but at least five Business Days (as hereinafter defined) prior to December 31. However, redemption will only occur on December 31 of each year. Unitholders whose Trust Units are redeemed will be entitled to receive a redemption price per Trust Unit equal to the Net Asset Value per Trust Unit (as hereinafter defined) determined as of the date of redemption, subject to the Manager’s right to suspend redemptions in certain circumstances. The Net Asset Value per Trust Unit will vary depending on a number of market factors, including performance of the Trust Investments, interest rates, commodity prices and the performance of the equity markets generally. See “Redemption of Trust Units”.

**There is currently no market through which the Trust Units may be sold and purchasers may not be able to resell securities purchased under the prospectus.** The Toronto Stock Exchange (the “TSE”) has conditionally approved the listing of the Trust Units. Listing is subject to the Trust fulfilling all of the requirements of the TSE on or before April 24, 2002, including the distribution of Trust Units to a minimum number of public Unitholders. The terms of the Offering were established through negotiation between the Agents and the Manager on behalf of the Trust. The price per Trust Unit is a function of the anticipated level of interest and distributions to be received by the Trust from its Trust Investments, the corresponding anticipated level of distributions to be made by the Trust and the perceived ability of the Advisor to preserve the value of the Trust Investments over the long term.

**There is no guarantee that an investment in the Trust will earn the initially targeted yield of 0.8125% per month (or 9.75% per annum) based on the Offering Price of the Trust Units or any positive return in the short or long term, nor is there any guarantee that the Net Asset Value of the Trust will be preserved. An investment in the Trust is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment and who can withstand the effect of the targeted return not being met in any period. There are certain risk factors associated with an investment in Trust Units. See “Risk Factors”.**

**The Trust is not a trust company and is not registered under legislation of any jurisdiction governing trust companies as it does not carry on or intend to carry on the business of a trust company. The Trust Units are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that Act or any other legislation.**

**Brompton Securities Limited, one of the Agents, is an associate of Brompton Limited, an affiliate of Brompton VIP Management Limited, the Manager of the Trust. In addition, Brompton VIP Management Limited is the holder of the only issued and outstanding Trust Unit (which Trust Unit will be purchased for cancellation by the Trust immediately following the closing of the Offering). Accordingly, the Trust may be considered to be a “connected issuer” and “related issuer” to Brompton Securities Limited. The Trust is in discussions with the Canadian chartered bank affiliate of one of the Agents, Scotia Capital Inc., regarding the establishment of a loan facility. Accordingly, the Trust may be considered to be a “connected issuer” to Scotia Capital Inc. See “Plan of Distribution”.**

Raymond James Ltd., BMO Nesbitt Burns Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., Scotia Capital Inc., TD Securities Inc., National Bank Financial Inc., HSBC Securities (Canada) Inc., Yorkton Securities Inc., Brompton Securities Limited, Desjardins Securities Inc., Dundee Securities Corporation and Research Capital Corp. (collectively, the “Agents”) conditionally offer the Trust Units for sale, subject to prior sale, on a best efforts basis, if, as and when issued, sold and delivered by the Trust in accordance with the conditions contained in the Agency Agreement referred to under “Plan of Distribution” and subject to the approval of certain legal matters on behalf of the Trust by Goodman and Carr LLP and on behalf of the Agents by Borden Ladner Gervais LLP. Subscriptions for Trust Units will be received subject to rejection or allotment in whole or in part and the Trust reserves the right to close the subscription books at any time without notice. Registrations of interests in and transfers of Trust Units will be made only through a book-based system (the “Book-Entry Only System”) administered by The Canadian Depository for Securities Limited (“CDS”). A book-entry only certificate representing the Trust Units will be issued in registered form only to CDS or its nominee and will be deposited with CDS on the date of closing which is expected to occur on or about February 19, 2002 or such later date as the Trust and the Agents may agree, but in any event not later than April 1, 2002. The Trust understands that a purchaser of Trust Units will receive only a customer confirmation from the registered dealer which is a CDS participant and from or through which the Trust Units are purchased, and will not have the right to receive physical certificates evidencing their ownership. See “Details of the Offering – Delivery Form and Denomination”.

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### ELIGIBILITY FOR INVESTMENT

In the opinion of Goodman and Carr LLP, counsel for the Trust, and Borden Ladner Gervais LLP, counsel for the Agents, provided that the Trust qualifies as a mutual fund trust and a registered investment within the meaning of the Tax Act, the Trust Units will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans (collectively, "Plans") and for registered education savings plans and will not constitute foreign property for the Plans or other persons subject to tax under Part XI of the Tax Act.

## PROSPECTUS SUMMARY

*The following is a summary of the principal features of this Offering and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. Certain capitalized terms used, but not defined, in this summary are defined in the “Glossary of Terms”.*

### The Trust

Brompton VIP Income Trust is a closed-end investment trust established under the laws of the Province of Ontario on October 25, 2001. The Manager of the Trust is Brompton VIP Management Limited and the Advisor is Elliott & Page Limited.

### The Offering

**Offering** A minimum of 4,000,000 and a maximum of 15,000,000 Trust Units of the Trust.

**Amount** A minimum of \$40,000,000 and a maximum of \$150,000,000.

**Price** \$10.00 per Trust Unit.

**Minimum Subscription** \$2,000 (200 Trust Units). Additional Subscriptions may be made in multiples of single Trust Units.

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

	Minimum Offering	Maximum Offering	Maximum Offering and Exercise of Over-Allotment Option
Gross proceeds to the Trust . . . . .	\$40,000,000	\$150,000,000	\$172,500,000
Agents’ fees . . . . .	\$ 2,200,000	\$ 8,250,000	\$ 9,487,500
Estimated expenses of issue . . . . .	\$ 600,000	\$ 600,000	\$ 600,000
Net proceeds to the Trust . . . . .	\$37,200,000	\$141,150,000	\$162,412,500

The Trust will use the net proceeds of this Offering to acquire High Income Investments in accordance with the Investment Objectives and the Investment Strategy and subject to the Investment Restrictions. See “Use of Proceeds”.

**Investment Objectives and Strategy**

The Investment Objectives of the Trust are to provide Unitholders with a high level of income through receipt of monthly distributions in a tax efficient manner initially targeted to yield approximately 0.8125% per month or 9.75% per annum based on the Offering Price of the Trust Units, enhance performance by reducing the risk of investing in High Income Investments through diversification, careful selection and active management of the Trust’s assets and preserve the Net Asset Value over the life of the Trust.

The Trust will seek to achieve its Investment Objectives by diligently selecting and actively managing a diversified portfolio of High Income Investments across a broad range of specialized investment vehicles in various industries and geographic areas, many of which provide tax advantaged sources of income and will include Oil and Gas Funds, REITs, Other Income Funds, High Yield Debt and Other Investments, in accordance with the Investment Objectives and Investment Strategy and subject to the Investment Restrictions. The Manager will employ debt to enhance the yield of the Trust’s distributions. See “Investment Objectives, Strategy and Restrictions – Investment Strategy”.

**Loan Facility**

The Trust will have a binding commitment from the Lender with respect to the Loan Facility prior to Closing. The Loan Facility will be drawn down following

Closing, in an aggregate amount not to exceed 25% of the Total Assets of the Trust, for various purposes, including purchasing High Income Investments, effecting market purchases of Trust Units, maintaining liquidity, funding redemptions and paying Distributions. In order to achieve its targeted monthly distributions to Unitholders, the Trust intends to draw down under the Loan Facility an amount equal to approximately 20% of the Total Assets for the purposes of purchasing High Income Investments. See “Loan Facility”.

#### **Distributions**

Commencing in the third month following the month in which Closing occurs, and on a monthly basis thereafter, each Unitholder of record at the close of business on the last Business Day of the preceding month will be entitled to receive a monthly Distribution. Distributions by the Trust will be paid on or about the tenth Business Day of the month to Unitholders of record at the close of business on the last Business Day of the preceding month.

In order to achieve the targeted monthly distribution of \$0.08125 per Trust Unit, the Trust will be required to generate an average annual return on the Trust Investments of approximately 10.5% assuming the value of the Trust Investments does not change during the term of the Trust and assuming that the Trust borrows 20% of the Total Assets at an interest rate of 3.5% per annum to purchase additional Trust Investments. **There is no guarantee that the requisite 10.5% return will be achieved by the Trust. If such return is not achieved, monthly distributions may be reduced.** See “Distributions and Reinvestment”.

Subject to obtaining any necessary regulatory approvals, the Trust will make available to Unitholders the opportunity to reinvest Distributions from the Trust in additional Trust Units and to purchase additional Trust Units for cash by participating in the Reinvestment Plan. See “Distributions and Reinvestment – Distribution Reinvestment Plan”.

#### **Redemptions**

Trust Units may be surrendered for redemption at any time during December of any year, but at least five Business Days prior to December 31. However, redemption will only occur on December 31 of each year. Unitholders whose Trust Units are redeemed will be entitled to receive a redemption price per Trust Unit equal to the Net Asset Value per Trust Unit determined as of the date of redemption and will receive payment on or before the twentieth Business Day following the redemption date, subject to the Manager’s right to suspend redemptions in certain circumstances. The Net Asset Value per Trust Unit will vary depending on a number of market factors, including performance of the Trust Investments, interest rates, commodity prices and the performance of the equity markets generally. See “Redemption of Trust Units”.

#### **Repurchase of Trust Units**

The Declaration of Trust provides that, subject to applicable law, the Trust may, in its sole discretion, from time to time purchase (in the open market or by invitation for tenders) Trust Units for cancellation up to a maximum in any calendar year of ten percent of the aggregate of the number of Trust Units outstanding on the date that the purchase occurs and all Trust Units previously purchased by the Trust during the year in which the purchase occurs at a price per Trust Unit not exceeding the Net Asset Value per Trust Unit on the Valuation Date immediately prior to the date of any such purchase of Trust Units. See “Declaration of Trust – Repurchase of Trust Units”.

#### **Manager**

Brompton VIP Management Limited is the Manager of the Trust and is responsible for providing or arranging for the provision of management and administrative services required by the Trust and for monitoring the performance of the Advisor, including its adherence to the Investment Restrictions, and the suitability of the Investment Strategy to meet the Investment Objectives. The

directors and officers of the Manager collectively have extensive experience in the analysis and understanding of the risks associated with a number of the businesses underlying the securities that may comprise the Trust Investments.

An affiliate of the Manager will subscribe for a minimum of 250,000 Trust Units at a cost of \$2,500,000 pursuant to the Offering.

The Management Agreement pursuant to which the Manager provides services to the Trust may be terminated at any time by the Trust on 90 days' written notice provided that an Ordinary Resolution calling for the termination of the Management Agreement is approved and Unitholders voting in favour of such Ordinary Resolution represent Trust Units equal to at least ten percent of the Trust Units outstanding on the record date of the meeting held to approve such Ordinary Resolution. See "The Manager and the Management Agreement".

**Advisor**

The Advisor, Elliott & Page Limited, will provide investment advisory and portfolio management services to the Trust. The Advisor is wholly-owned by Manulife Financial Corporation. The Manager pays a fee to the Advisor for the implementation of the Investment Strategy and the selection and active management of the Trust Investments and such fee is not payable or reimbursable by the Trust. See "The Advisor and the Advisory Agreement".

**Trustee**

Computershare Trust Company of Canada

**Registrar, Transfer Agent  
and Distribution Agent**

Computershare Trust Company of Canada

**Termination of the Trust**

The Trust will be terminated upon 90 days' written notice to the Manager from the Trustee that an Ordinary Resolution calling for the termination of the Trust has been approved at a duly convened meeting of Unitholders, provided that Unitholders voting in favour of such Ordinary Resolution represent Trust Units equal to at least ten percent of the Trust Units outstanding on the record date of the meeting held to approve such Ordinary Resolution. Prior to the Termination Date, the Manager will instruct the Advisor to convert the Trust Investments to cash to the extent practicable and will satisfy or make appropriate provision for all liabilities of the Trust. The Manager may, in its discretion and upon not less than 30 days' notice to the Unitholders, extend the Termination Date by a period of up to 180 days if the Advisor advises the Manager that the Advisor will be unable to convert all of the Trust Investments to cash prior to the original Termination Date and the Manager determines that it would be in the best interests of the Unitholders to do so. The Trust will distribute to Unitholders their *pro rata* portions of the remaining assets of the Trust which will include cash and, to the extent liquidation of certain assets is not practicable or the Advisor considers such liquidation not to be appropriate prior to the Termination Date, such unliquidated assets in specie rather than in cash, subject to compliance with any securities or other laws applicable to such Distributions. See "Risk Factors". Following such Distribution, the Trust will be dissolved. See "Declaration of Trust – Termination of the Trust".

### Summary of Fees and Expenses Payable by the Trust

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

<u>Type of Charge</u>	<u>Description of Charge</u>
Agents’ Fees	\$0.55 per Trust Unit (5.5%).
Expenses of the Issue	The expenses of the Offering are estimated to be \$600,000 which, together with the Agents’ fees, will be paid by the Trust.
Fee Payable to the Manager for Acting as Manager of the Trust	The Manager will receive an annual fee equal to 0.85% per annum of the Net Asset Value, calculated and payable monthly in arrears, plus applicable taxes. The Manager is responsible for paying the advisory fees of the Advisor. See “The Advisor and the Advisory Agreement – The Advisory Agreement”.
Operating Expenses of the Trust	The Trust will pay all expenses incurred in connection with the operation and administration of the Trust including but not limited to the Trustee’s fees, the Management Fee, the Service Fee, custodial fees, legal, audit and valuation fees and expenses, expenses (excluding fees) of the directors of the Manager, premiums for directors’ and officers’ insurance coverage for the directors and officers of the Manager, Unitholder reporting costs, registrar, transfer and distribution agency costs, printing and mailing costs, listing fees and expenses and other administrative expenses and costs incurred in connection with the Trust’s continuous public filing requirements and investor relations, taxes, brokerage commissions, costs and expenses relating to the issue of Trust Units, costs and expenses of preparing financial and other reports, costs and expenses as a result of complying with all applicable laws, regulations and policies and all amounts paid by the Trust on account of the indebtedness of the Trust, but excluding the fees payable to the Advisor pursuant to the Advisory Agreement which will be paid by the Manager. Such expenses will also include expenses of any action, suit or other proceedings in which or in relation to which the Manager, the Advisor, the Custodian or the Trustee and/or any of their respective officers, directors, employees, consultants or agents is entitled to indemnity by the Trust. The Manager estimates that the ongoing expenses of the Trust, exclusive of debt service and other costs related to the Loan Facility and brokerage expenses related to Trust Investment transactions, will be approximately \$225,000 per year.
Service Fee	The Trust will pay to the Manager a Service Fee (calculated quarterly and paid as soon as practicable after the end of each calendar quarter) equal to 0.40% per annum of the Net Asset Value of Trust Units held at the end of the relevant quarter by clients of dealers, plus applicable taxes. The Service Fee will be applied by the Manager to pay a service fee in an equivalent aggregate amount, plus applicable taxes, to dealers based on the number of Trust Units held by clients of such dealers at the end of the relevant quarter.

### Risk Factors

There are risks associated with an investment in the Trust Units which should be considered by prospective purchasers, including: (i) there being no assurance that the Trust will be able to achieve its targeted monthly distributions or preserve the Net Asset Value per Trust Unit; (ii) there being no assurance of the marketability of

the Trust Investments; (iii) the risks associated with investments in High Yield Debt; (iv) the sensitivity in the market price of the Trust Units and the Net Asset Value per Trust Unit to interest rate fluctuations; (v) the effect of changes in commodity prices; (vi) fluctuations in Net Asset Value per Trust Unit and funds available for Distributions; (vii) the possible variation in the composition of the Trust Investments taken as a group; (viii) reliance on the Advisor and the Manager; (ix) the Trust's intention to incur indebtedness to enhance yield and the leverage effect this may have on the Net Asset Value; (x) the possibility of the Trust being unable to acquire or dispose of illiquid securities; (xi) the risk of being required to pay subsequent instalments on a security that has declined in value where the security was purchased on an instalment basis; (xii) the possibility that the Trust may become taxable; (xiii) the risks associated with interest rate hedging; (xiv) the possible loss of investment; (xv) the Trust not being subject to regulation as a mutual fund; (xvi) the potential liability of Unitholders; (xvii) the risks associated with securities lending; (xviii) the potential for conflicts of interest; (xix) the Trust having no operating history and there being no existing market for Trust Units; (xx) the risks associated with the use of derivatives; (xxi) possible changes in legislation; and (xxii) foreign currency exposure. See "Risk Factors".

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

A Unitholder will generally be required to include in computing income for a taxation year that part of the net income, and the taxable portion of the net realized capital gains, of the Trust, if any, that is paid or becomes payable to the Unitholder by the Trust in that year. To the extent that amounts payable to a Unitholder who is an individual are designated as taxable dividends from taxable Canadian corporations, the normal gross-up and dividend tax credit rules relating to the taxation of those dividends will apply to the Unitholder. To the extent that amounts payable to a Unitholder are designated as taxable capital gains, those amounts will be treated as taxable capital gains realized by the Unitholder.

Distributions by the Trust to a Unitholder in excess of the Unitholder's share of the Trust's net income and net realized capital gains will reduce the adjusted cost base of the Unitholder's Trust Units. To the extent that the adjusted cost base of a Trust Unit held as capital property would otherwise be less than zero, the Unitholder will be deemed to have realized a capital gain equal to that negative amount. See "Canadian Federal Income Tax Considerations".



## GLOSSARY OF TERMS

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

**“Additional Distribution”** means a distribution that will, if necessary, be made automatically in each year to Unitholders of record on December 31 in order that the Trust will generally not be liable to pay income tax.

**“Advisor”** means the Trust’s investment advisor, Elliott & Page Limited, or, if applicable, its successor.

**“Advisory Agreement”** means the investment advisory agreement dated as of January 29, 2002, between the Manager, on behalf of the Trust, the Manager and the Advisor, as it may be amended from time to time.

**“Agency Agreement”** means the agency agreement dated as of January 29, 2002 among the Manager, on behalf of the Trust, the Manager and the Agents.

**“Agents”** means, collectively, Raymond James Ltd., BMO Nesbitt Burns Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., Scotia Capital Inc., TD Securities Inc., National Bank Financial Inc., HSBC Securities (Canada) Inc., Yorkton Securities Inc., Brompton Securities Limited, Desjardins Securities Inc., Dundee Securities Corporation and Research Capital Corp.

**“Book-Entry Only System”** means the book-based system administered by CDS.

**“Business Day”** means any day except Saturday, Sunday, a statutory holiday in Toronto, Ontario or any other day on which the TSE is not open for trading.

**“CDS”** means The Canadian Depository for Securities Limited.

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

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

**“Closing Date”** means the date of the Closing, which is expected to be on or about February 19, 2002, or such later date as the Trust and the Agents may agree, but in any event not later than April 1, 2002.

**“Current Yield”** means, for any issuer, the most recent reported monthly or quarterly per unit distribution for that issuer multiplied by 12 in the case of issuers that make monthly distributions and by four in the case of issuers that make quarterly distributions and divided by the closing price per unit of such issuer on January 22, 2002.

**“Custodian”** means The Royal Trust Company, in its capacity as custodian under the Custodian Agreement.

**“Custodian Agreement”** means the custodian agreement to be entered into on or prior to the Closing Date between the Manager, on behalf of the Trust, and the Custodian, as it may be amended from time to time.

**“Declaration of Trust”** means the amended and restated declaration of trust dated as of January 29, 2002, as it may be amended from time to time.

**“Distribution(s)”** means the cash and in specie distribution(s) which are paid by the Trust to Unitholders.

**“Distribution Date”** means the date on which cash distributions are paid by the Trust, such date to be the date which is the tenth Business Day after the applicable Record Date.

**“Extraordinary Resolution”** means a resolution passed by the affirmative vote of at least 66⅔% of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of approving such resolution.

**“High Income Investments”** means units of Income Funds, High Yield Debt and Other Investments.

**“High Yield Debt”** means high yielding debt that, at the time of investment, is either rated below BBB- by Standard & Poor’s Corporation or a similar rating with another rating agency or unrated.

**“Income Funds”** means trusts or limited partnerships structured to own debt and equity of an underlying company which carries on an active business, real estate assets, or a royalty in revenues generated by the assets of an underlying company which carries on an active business, including Oil and Gas Funds, REITs, Royalty Trusts and Other Income Funds.

“**Investment Objectives**” means the investment objectives of the Trust set forth in the Declaration of Trust, as described under “Investment Objectives, Strategy and Restrictions – Investment Objectives”.

“**Investment Restrictions**” means the investment restrictions of the Trust set forth in the Declaration of Trust restricting the investment activities of the Trust as described under “Investment Objectives, Strategy and Restrictions – Investment Restrictions”.

“**Investment Strategy**” means the investment strategy to be followed by the Advisor in respect of the Trust set forth in the Declaration of Trust, as described under “Investment Objectives, Strategy and Restrictions – Investment Strategy”.

“**Lender**” means a Canadian chartered bank or other lending institution.

“**Loan Facility**” means the loan facility to be entered into between the Manager, on behalf of the Trust, and the Lender for various purposes, including making investments in accordance with the Investment Objectives and Investment Strategy and subject to the Investment Restrictions, effecting market purchases of Trust Units, maintaining liquidity, funding redemptions and paying Distributions, and any renewals, extensions or replacements from time to time of such Loan Facility entered into with the Lender or any other lender or lenders.

“**Manager**” means the manager and administrator of the Trust, Brompton VIP Management Limited or, if applicable, its successor.

“**Management Agreement**” means the management agreement dated January 29, 2002, between the Manager and the Trustee, on behalf of the Trust, as it may be amended from time to time.

“**Management Fee**” means the management fee payable to the Manager, equal to 0.85% per annum of Net Asset Value, as more fully described under “Fees and Expenses Payable by the Trust – Management Fee”.

“**Net Asset Value**” means the net asset value of the Trust, as determined by subtracting the aggregate liabilities of the Trust from the Total Assets as more fully described under “Valuation, Total Assets and Net Asset Value”.

“**Net Asset Value per Trust Unit**” means the Net Asset Value divided by the total number of Trust Units outstanding, in each case on the date on which the calculation is being made.

“**Offering**” means the offering of a minimum of 4,000,000 Trust Units and a maximum of 15,000,000 Trust Units at the Offering Price pursuant to this prospectus.

“**Offering Price**” means \$10.00 per Trust Unit.

“**Oil and Gas Funds**” means Income Funds and Royalty Trusts where the principal business of the underlying company is the conventional exploitation, production and sale of oil and gas products.

“**Ordinary Resolution**” means a resolution passed by the affirmative vote of at least 50% of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of approving such resolution.

“**Other Income Funds**” means all Income Funds and similar type investments that are not Oil and Gas Funds or REITs.

“**Other Investments**” means high income yielding investments other than Income Funds and High Yield Debt.

“**Over-Allotment Option**” means the option granted by the Trust to the Agents, exercisable for a period of 30 days from Closing, to purchase at the Offering Price additional Trust Units in an amount equal to 15% of the aggregate number of Trust Units sold on the closing of the Offering, solely to cover over-allotments, if any.

“**Plan Agent**” means the Trustee, in its capacity as agent under the Reinvestment Plan.

“**Plan Participants**” means Unitholders who are participants in the Reinvestment Plan.

“**Record Date**” means the last Business Day of each calendar month prior to the Termination Date commencing with the last Business Day of the second month following the month in which the Closing Date occurs.

“**Reinvestment Plan**” means the Trust’s Distribution Reinvestment Plan, as it may be amended from time to time.

“**Reinvestment Plan Agency Agreement**” means the Reinvestment Plan Agency Agreement to be entered into on or prior to the Closing Date among the Trustee, on behalf of the Trust, the Manager and the Trustee, in its capacity as the Plan Agent, establishing the Reinvestment Plan, as it may be amended from time to time.

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

“**Royalty Trusts**” means Income Funds structured to own a royalty in revenues generated by the assets of an underlying company which carries on an active business.

“**Service Fee**” means the fee that the Trust will pay to the Manager (calculated quarterly and paid as soon as practicable after the end of each calendar quarter) equal to 0.40% per annum of the Net Asset Value of the Trust Units held at the end of the relevant quarter by clients of dealers, plus applicable taxes. The Service Fee will be applied by the Manager to pay a service fee in an equivalent aggregate amount, plus applicable taxes, to dealers based on the number of Trust Units held by clients of such dealers at the end of the relevant quarter.

“**Short Term Investments**” means (i) obligations issued or guaranteed by the Government of Canada or any province of Canada or any agency or instrumentality thereof with less than twelve months to maturity; (ii) term deposits, guaranteed investment certificates, certificates of deposit or bankers’ acceptances of or guaranteed by any Canadian chartered bank or other financial institution (including the Trustee and any affiliate of the Trustee) the short-term debt or deposits of which have been rated at least investment grade by Standard & Poor’s, Moody’s Investors Service, Inc. or Dominion Bond Rating Service Limited; and (iii) commercial paper rated at least investment grade or the equivalent by Standard & Poor’s, Moody’s Investors Service, Inc. or Dominion Bond Rating Service Limited, in each case either maturing within 365 days after the date of acquisition or for which the Adviser believes that there will be a liquid market for the resale thereof within such 365 day period.

“**Tax Act**” means the *Income Tax Act* (Canada), as now or hereafter amended, or successor statutes, and shall include regulations promulgated thereunder.

“**Termination Date**” means the date the Trust is terminated as more fully described under “Declaration of Trust – Termination of the Trust”.

“**Total Assets**” means the aggregate value of the assets of the Trust determined in accordance with the terms of the Declaration of Trust.

“**Trailing 12 Month Yield**” means, for any issuer, the trailing 12 month yield to December 31, 2001 of such issuer calculated by dividing the aggregate amount of distributions per unit made by such issuer for the 12 months ended December 31, 2001 by the closing price per unit of such issuer on January 22, 2002.

“**Trust**” means Brompton VIP Income Trust, a closed-end investment trust established under the laws of Ontario pursuant to the Declaration of Trust.

“**Trust Investment**” means an investment acquired and managed by the Adviser on behalf of the Trust and “**Trust Investments**” means more than one Trust Investment taken collectively.

“**Trust Units**” means the transferable, redeemable units of the Trust, each of which represents an equal, undivided beneficial interest in the net assets of the Trust.

“**Trustee**” means Computershare Trust Company of Canada, in its capacity as Trustee under the Declaration of Trust.

“**TSE**” means The Toronto Stock Exchange.

“**Unitholders**” means holders of Trust Units.

“**Valuation Date**” means, at a minimum, Thursday of each week, or if any Thursday is not a Business Day, the immediately preceding Business Day, and the last business day of each month, and includes any other date on which the Manager elects, in its discretion, to calculate the Net Asset Value per Trust Unit.

## THE TRUST

Brompton VIP Income Trust is a closed-end investment trust established under the laws of the Province of Ontario pursuant to the Declaration of Trust. Brompton VIP Management Limited is the Manager of the Trust and Computershare Trust Company of Canada is the Trustee of the Trust. The Trust's principal office is Suite 2315, Royal Bank Plaza, South Tower, 200 Bay Street, Toronto, Ontario M5J 2J2. The fiscal year-end of the Trust is December 31.

The beneficial interest in the net assets and net income of the Trust is divided into transferable, redeemable units, each of which represents an equal, undivided interest in the net assets of the Trust. Each Trust Unit is entitled to one vote and to participate equally with all other Trust Units with respect to all payments made to Unitholders out of the Trust's assets. See "Declaration of Trust – Description of Trust Units". Unitholders will have no voting rights in respect of Trust Investments held by the Trust. From time to time, the Advisor will determine whether or not to exercise the voting rights attached to the Trust Investments and, if so, how such securities will be voted. As of the date hereof, one Trust Unit has been issued to the Manager for cash consideration of \$25 which will be purchased for cancellation immediately following Closing.

## STATUS OF THE TRUST

The Trust is not considered to be a mutual fund under the securities legislation of the provinces and territories of Canada. Consequently, the Trust is not subject to the various policies and regulations that apply to mutual funds. The Trust differs from a mutual fund in a number of respects, most notably as follows:

- (a) the Trust Units may be surrendered for redemption at any time during December of any year, but at least five Business Days prior to December 31, however, redemption will only occur on December 31 of each year, whereas the securities of most mutual funds are redeemable daily;
- (b) the Trust Units are to have a stock exchange listing whereas the securities of most mutual funds do not;
- (c) unlike most mutual funds, the Trust Units will not be offered on a continuous basis (except pursuant to the Reinvestment Plan); and
- (d) the Trust is permitted to borrow whereas mutual funds are not permitted to do so.

## INVESTMENT OBJECTIVES, STRATEGY AND RESTRICTIONS

### Investment Objectives

The Investment Objectives of the Trust are to:

- provide Unitholders with a high level of income through receipt of monthly Distributions in a tax efficient manner initially targeted to yield approximately 0.8125% per month or 9.75% per annum based on the Offering Price of the Trust Units;
- enhance performance by reducing the risk of investing in High Income Investments through diversification, careful selection and active management of the Trust's assets; and
- preserve the Net Asset Value over the life of the Trust.

The Trust's Investment Objectives cannot be changed without the prior approval of Unitholders by way of an Extraordinary Resolution. See "Declaration of Trust – Modification of Declaration of Trust and Meetings of Unitholders".

### Investment Strategy

The Trust will seek to achieve its Investment Objectives by diligently selecting and actively managing a diversified portfolio of High Income Investments across a broad range of specialized investment vehicles in various industries and geographic areas, many of which provide tax advantaged sources of income and will include Oil and Gas Funds, REITs, Other Income Funds, High Yield Debt and Other Investments.

The Advisor will select investments from the above classes based on its assessment of the relative risk/reward characteristics of prospective investments at any point in time. This assessment will be based on fundamental research and analysis of an investment which would include a review of the track record of management, profit margins, growth rates, leverage levels, susceptibility to changes in commodity prices, life of underlying assets, net asset value relative to trading price and earnings, cash flow and distributions relative to market price. Pending investment in the High Income Investments, which will be made as expeditiously as prudent investment practice permits and which may take several months depending on market conditions, the Trust will invest the proceeds of the Offering in Short Term Investments. It is anticipated that investment of the proceeds of the Offering in High Income Investments will be concluded within six months of Closing. In addition, during periods in which the Advisor believes changes in economic, financial or political conditions make it advisable, the Trust may, for temporary defensive purposes, reduce its holdings of High Income Investments and invest in Short Term Investments.

The Trust's Investment Strategy cannot be changed without the prior approval of Unitholders by way of an Extraordinary Resolution. See "Declaration of Trust – Modification of Declaration of Trust and Meetings of Unitholders".

### **Investment Restrictions**

In making investments on behalf of the Trust, the Advisor will be subject to certain Investment Restrictions which are set out in the Declaration of Trust. The Investment Restrictions may not be changed without the prior approval of Unitholders by way of an Extraordinary Resolution, unless such change or changes are necessary to ensure compliance with applicable laws, regulations or other requirements imposed from time to time by applicable regulatory authorities. See "Declaration of Trust – Modification of Declaration of Trust and Meetings of Unitholders".

The Investment Restrictions provide that the Trust will not:

- (a) invest more than ten percent of Total Assets in the securities of any single issuer, other than securities issued or guaranteed by the Government of Canada or a province or territory thereof;
- (b) purchase real estate (other than through the purchase of securities issued by issuers that invest in real estate or interests therein, including, without limitation, REITs and limited partnerships which invest in real estate);
- (c) make short sales of securities or maintain short positions, except for the purpose of hedging to offset or reduce risks associated with a Trust Investment or a group of Trust Investments;
- (d) own more than ten percent of the outstanding equity securities of an issuer or purchase the securities of an issuer for the purpose of exercising control over management of that issuer;
- (e) borrow money, except that:
  - (i) short term credits necessary for settlement of securities transactions are not considered borrowing, and
  - (ii) the Trust may borrow up to 25% of the Total Assets, determined at the time of borrowing, pursuant to the Loan Facility (including securities purchased with the amount borrowed);
- (f) purchase or sell commodities or commodities contracts, if the intention is to take physical delivery of the underlying commodities;
- (g) guarantee the securities or obligations of any person other than the Manager, and then only in respect of the business of the Trust;
- (h) act as underwriter, except to the extent that the Trust may be deemed to be an underwriter in connection with the sale of Trust Investments;

- (i) make any investment that would result in the Trust failing to qualify as a “unit trust” within the meaning of paragraph 108(2)(b) of the Tax Act. In order for the Trust to so qualify:
  - (i) at all times at least 80% of the property of the Trust must consist of a combination of: shares; property that, under the terms or conditions of which or under an agreement, is convertible into, exchangeable for, or confers a right to acquire, shares; bonds, debentures, mortgages, hypothecary claims, notes and other similar obligations; marketable securities; cash; real property situated in Canada and interests in real property situated in Canada; or rights to and interests in any rental or royalty computed by reference to the amount or value of production from a natural accumulation of petroleum or natural gas in Canada, from an oil or gas well in Canada or from a mineral resource in Canada;
  - (ii) not less than 95% of the Trust’s income for each year must be derived from, or from the disposition of, investments described in (i) above;
  - (iii) at no time may more than ten percent of the Trust’s property consist of bonds, securities or shares in the capital stock of any one corporation or debtor other than Her Majesty in right of Canada or a province or a Canadian municipality;
- (j) invest in securities which may be considered “foreign property”, unless, at the end of each month, the “cost amount” to the Trust of such “foreign property” (as those terms are defined in the Tax Act) held by it does not exceed 30% (or such other percentage specified from time to time for the purposes of Part XI of the Tax Act) of the “cost amount” of all property held by it;
- (k) with the exception of securities of the Trust’s own issue, purchase securities from, sell securities to, or otherwise contract for the acquisition or disposition of securities with the Advisor or the Manager or any of their respective affiliates, with any officer, director or shareholder of any of them, with any person, trust, firm or corporation managed by the Advisor or the Manager or any of their respective affiliates or with any firm or corporation in which any officer, director or shareholder of the Advisor or the Manager may have a material interest (which, for these purposes, includes beneficial ownership of more than ten percent of the voting securities of such entity) unless, with respect to any purchase or sale of securities, either: (a) any such transaction is effected through normal market facilities, and the purchase price approximates the prevailing market price; or (b) such purchase or sale is approved by a majority of the Manager’s independent directors;
- (l) enter into agreements to buy shares of a corporation at a price that may differ from fair market value at the time of acquisition that could give rise to tax under Part XI of the Tax Act; or
- (m) invest in the securities of any non-resident corporation or trust or other non-resident entity if the Trust would be required to mark its investment in such securities to market in accordance with proposed section 94.2 of the Tax Act or to include any significant amounts in income pursuant to proposed section 94.1 of the Tax Act, as set forth in the proposed amendments to the Tax Act dealing with foreign investment entities released on August 2, 2001 (or amendments to such proposals, provisions as enacted into law or successor provisions thereto).

If a percentage restriction on investment or use of assets or borrowing set forth above as an Investment Restriction is adhered to at the time of the transaction, later changes to the market value of the Trust Investment or Total Assets will not be considered a violation of the Investment Restrictions or require the elimination of any Trust Investment or the repayment of any borrowing (except for the restrictions in paragraph (i) above which must be complied with at all times and which may necessitate the selling of Trust Investments from time to time). If the Trust receives from an issuer subscription rights to purchase securities of that issuer, and if the Trust exercises those subscription rights at a time when the Trust’s holdings of securities of that issuer would otherwise exceed the limits set forth above, the exercise of those rights will not constitute a violation of the Investment Restrictions if, prior to the receipt of securities of that issuer on exercise of these rights, the Trust has sold at least as many securities of the same class and value as would result in the restriction being complied with.

## Use of Derivative Instruments

The Trust may invest in or use derivative instruments for hedging purposes consistent with the Investment Objectives and Investment Strategy and subject to the Investment Restrictions. For example, the Trust may use derivatives, including interest rate hedges, with the intention of offsetting or reducing risks associated with a Trust Investment or group of Trust Investments. These risks include currency value fluctuations, commodity price fluctuations, stock market risks and interest rate changes.

## Securities Lending

In order to generate additional returns, the Trust may lend Trust Investments to securities borrowers acceptable to the Trust pursuant to the terms of a securities lending agreement between the Trust and such borrower (a “Securities Lending Agreement”). Under a Securities Lending Agreement: (i) the Borrower will pay to the Trust a negotiated securities lending fee and will make compensation payments to the Trust equal to any distributions received by the Borrower on the securities borrowed; (ii) the securities loans must qualify as “securities lending arrangements” for the purposes of the Tax Act; and (iii) the Trust will receive collateral security.

## INITIAL PORTFOLIO

The Trust Investment asset mix will vary over time depending on changes in market conditions and the Advisor’s view as to the relative merits of each asset class. The initial portfolio is expected to have a mix of the various asset classes described above with an approximate range of initial portfolio weightings as follows.

<u>Asset Class</u>	<u>Approximate Range of Initial Weightings</u>
Oil and Gas Funds	15% – 25%
REITs	20% – 30%
Other Income Funds	25% – 35%
High Yield Debt and Other Investments	15% – 25%

**This table is for illustrative purposes only and the actual weighting will likely change depending on market conditions at the time of investment. There is no guarantee that an investment in the Trust will earn or maintain the initially targeted yield of 0.8125% per month or 9.75% per annum based on the Offering Price or any positive return in the short or long term, nor is there a guarantee that the Net Asset Value of the Trust will be preserved. Changes in the relative weightings between the various types of investment vehicles making up the Trust Investments can affect the overall yield to Unitholders. An investment in the Trust is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment or who can withstand the effect of the targeted return not being met in any period. See “Risk Factors”.**

## HIGH INCOME INVESTMENTS

The High Income Investments in which the Trust will invest include Income Funds, comprised of Oil and Gas Funds, REITs and Other Income Funds, many of which provide tax advantaged sources of income, and High Yield Debt and Other Investments. Each of these categories of investments are described briefly as follows.

### Income Funds

Income Funds are trusts or limited partnerships which are generally structured to own debt or equity of an underlying company, or a royalty in revenues generated by the assets thereof, which carries on an active business. The variety of businesses upon which Income Funds have been created has become very broad, both in the nature of the underlying industry and assets and in geographic location.

Income Funds are structured in a way to minimize the double taxation that normally occurs for stock exchange listed companies. By having a trust fund or partnership own equity and debt securities of an operating

business, income tax can be minimized at the operating company level. Distributions from Income Funds normally include the following components: interest, dividends and return of capital. The return of capital is not taxable to a unitholder in the year of distribution, but will reduce the adjusted cost base for tax purposes of the unitholders' trust units.

Royalty Trusts are similar in structure to other types of Income Funds except that the trust owns a royalty income stream from an operating subsidiary company which provides the principal source of distributable income for the trust. Royalty Trusts are largely in the energy sector although it is possible to have Royalty Trusts in other industries as well. The purchase of the royalty provides the Royalty Trust with certain tax incentives which reduce taxable income at the Royalty Trust level, but which do not affect the amount of cash that can be distributed to the unitholders by the Royalty Trust. That portion of the cash distributions made by the Royalty Trust which is not taxed in the hands of unitholders in the year of distribution is treated as a return of capital to unitholders and reduces the unitholders' adjusted cost base for tax purposes.

### *Oil and Gas Funds*

Oil and Gas Funds include Royalty Trusts and other types of Income Funds where the principal business of the underlying company is the exploitation, production and sale of oil and gas products. These funds pay out to unitholders substantially all of the cash flow that they receive from the production and sale of underlying crude oil and natural gas reserves. The amount of distributions paid on an Oil and Gas Fund's units will vary from time to time based on production levels, commodity prices, royalty rates and certain expenses, deductions and costs. As a result of distributing the bulk of their cash flow to unitholders, Oil and Gas Funds are effectively precluded from internally originating new oil and gas prospects. Therefore, Oil and Gas Funds typically grow through acquisition of producing companies or those with proven reserves of oil and gas, funded through the issuance of additional equity or, where the trust is able, additional debt. Consequently, Oil and Gas Funds are considered to be less exposed to the uncertainties faced by a traditional exploration and production corporation. However, they are still exposed to commodity risk and reserve risk, as well as operating risk.

Based on publicly available information, as at January 22, 2002, over 15 Oil and Gas Funds with a combined market capitalization exceeding \$7 billion existed in Canada.

The Advisor anticipates that the Trust Investments will initially be comprised of Oil and Gas Funds in the target range of 15% to 25%. The following is a list of publicly traded Oil and Gas Funds in Canada that the Advisor has determined could form part of the Trust Investments.

### **Representative Oil and Gas Funds**

Acclaim Energy Trust	NCE Energy Trust
Advantage Energy Income Fund	NCE Petrofund
APF Energy Trust	Pengrowth Energy Trust
ARC Energy Trust	PrimeWest Energy Trust
Enerplus Resources Fund	Provident Energy Trust
Freehold Royalty Trust	Shiningbank Energy Income Fund
NAL Oil & Gas Trust <sup>(1)</sup>	Viking Energy Royalty Trust

Note:

(1) NAL Oil & Gas Trust is managed by an affiliate of the Advisor.

The actual composition of the Trust Investments in Oil and Gas Funds may initially and from time to time be different from the representative Oil and Gas Funds shown in the above table based on the Advisor's assessment of the prevailing or anticipated market conditions.

The Current Yields on the above Oil and Gas Funds range from 11.1% to 27.6% and the Trailing 12 Month Yields range from 16.7% to 36.2%. **Information relating to these pre-tax annual cash-on-cash yields (excluding capital gains and losses) has been derived from publicly available information and is not intended to be, nor should it be construed to be, an indication of future yields.**



## **REITs**

REITs are similar in structure to other types of Income Funds except that they generally invest directly in income producing real estate. The primary income generated by REITs is rental and lease income from commercial, industrial or residential real estate properties, which can include office buildings, hotels, shopping centers or residential rental properties.

A REIT is a tax-efficient vehicle for owning, managing and investing in real estate assets. In a trust, income is generally only taxed at the unitholder level, thereby eliminating the layer of corporate tax that would otherwise be payable if real estate were held by a corporation. Additionally, because a REIT is able to claim capital cost allowance for tax purposes in addition to the normal cash expenses, a portion of a REIT's distributions is normally tax deferred.

In addition to providing relatively stable and predictable income, REITs can provide important diversification in a portfolio. Real estate has traditionally served as a hedge against inflation as rental rates tend to be correlated with a level of inflation over the long term, whereas many financial assets are negatively impacted by inflation.

Based on publicly available information, as at January 22, 2002, the REIT market in Canada consisted of over 15 REITs with market capitalization in excess of \$7 billion.

The Advisor contemplates that the Trust Investments will initially be comprised of REITs in the target range of 20% to 30%. The following is a list of publicly traded REITs in Canada that the Advisor has determined could form part of the Trust Investments.

### **Representative REITs**

Canadian Apartment Properties REIT	Morguard REIT
Canadian Hotel Income Properties REIT	O&Y REIT
Canadian REIT	Residential Equities REIT
Cominar REIT	Retirement Residences REIT
CPL Long Term Care REIT	RioCan REIT
H&R REIT	Royal Host REIT
Legacy Hotels REIT	Summit REIT

The actual composition of the Trust Investments in REITs may initially and from time to time be different from the representative REITs shown in the above table based on the Advisor's assessment of the prevailing or anticipated market conditions.

The Current Yields on the above Canadian REITs range from 7.2% to 11.0% and the Trailing 12 Month Yields range from 6.4% to 13.7%. **Information relating to these pre-tax annual cash-on-cash yields (excluding capital gains and losses) has been derived from publicly available information and is not intended to be, nor should it be construed to be, an indication of future yields.**

### **Other Income Funds**

Other Income Funds will include all Income Funds, oil sands trusts or similar type fund investments that are not Oil and Gas Funds or REITs. These funds will represent principal businesses across a broad range of industries, including power generation, pipelines, fuel distribution, public storage, mining, coal distribution, sugar distribution and forest products.

The Advisor contemplates that the Trust Investments will initially be comprised of Other Income Funds in the target range of 25% to 35%. The following is a list of publicly traded Other Income Funds in Canada that the Advisor has determined could form part of the Trust Investments.

### **Representative Other Income Funds**

Algonquin Power Income Fund	Koch Pipelines Canada, L.P.
Altas Cold Storage Income Trust	Northland Power Income Fund
Canadian Oil Sands Trust	Pembina Pipeline Income Fund
Chemtrade Logistics Income Trust	Rogers Sugar Income Fund
Clean Power Income Fund	Superior Propane Income Fund
Connor Bros. Income Fund Inc.	TransAlta Power, L.P.
Davis + Henderson Income Fund	TimberWest Forest Corp. <sup>(1)</sup>
Fort Chicago Energy Partners, L.P.	Westshore Terminals Income Fund
Great Lakes Hydro Income Fund	

Note:

(1) Although TimberWest Forest Corp. is a corporation, rather than a trust or a limited partnership, its stapled units have historically produced a yield for investors that is comparable to the yield produced by conventional Other Income Funds.

The actual composition of the Trust Investments in Other Income Funds may initially and from time to time be different from the representative Other Income Funds shown in the above table based on the Advisor's assessment of the prevailing or anticipated market conditions.

The Current Yields on the above Other Income Funds range from 7.6% to 14.4% and the Trailing 12 Month Yields range from 7.2% to 11.7%. **Information relating to these pre-tax annual cash-on-cash yields (excluding capital gains and losses) has been derived from publicly available information and is not intended to be, nor should it be construed to be, an indication of future yields.**

### **High Yield Debt and Other Investments**

High Yield Debt is defined as high yielding debt that is either rated below BBB– by Standard & Poor's Corporation or a similar rating with another rating agency or unrated, some of which could provide equity enhancements. Such High Yield Debt is typically unsecured and subordinated to the issuer's other indebtedness. Yields vary with the market's estimate of the credit quality of the issuer and the liquidity of the debt issue. Interest payable on High Yield Debt is 100% taxable.

Publicly available information on the Canadian market for High Yield Debt is incomplete, the market being less well developed than the United States market. Based on publicly available information, approximately U.S.\$25 billion in High Yield Debt issued by Canadian corporations was outstanding as of September 30, 2001. The size of the U.S. High Yield Debt market as at October 18, 2001 was approximately U.S.\$762 billion.

There exist in the Canadian marketplace today a number of other high yielding investments which do not constitute High Yield Debt and do not fall into the other three classes described above and additional income securities continue to be created by an innovative investment dealer community. In addition, new high yielding investments may be created in the future which may be suitable for investment by the Trust.

The Advisor contemplates that the Trust Investments will initially be comprised of High Yield Debt and Other investments in the target range of 15% to 25%.

### **LOAN FACILITY**

In order to provide the Trust with a prudent level of leverage to enhance the Trust's yield, the Trust will borrow pursuant to the Loan Facility from a Canadian chartered bank or other lending institution. The Trust will have a binding commitment from the Lender with respect to the Loan Facility, prior to Closing. The Trust expects that the terms, conditions, interest rates, fees and expenses of and under the Loan Facility will be typical for loans of this nature. The Lender will be at arm's length to the Trust, the Trustee, the Manager and the Advisor and their respective affiliates and associates.

The Loan Facility will permit the Trust to borrow monies for various purposes, including, without limitation, purchasing Trust Investments in accordance with the Investment Objectives and Investment Strategy and subject to the Investment Restrictions, effecting market purchases of Trust Units, maintaining liquidity, funding redemptions and paying Distributions. The Trust anticipates that the Lender will require the Trust to provide a security interest in some or all of its assets in favour of the Lender to secure such borrowings. The Manager will ensure that in the event of default, the Lender's recourse will be limited to the assets of the Trust.

Other than borrowings by the Trust under the Loan Facility of up to 25% of the Total Assets (including securities purchased with the amount borrowed), determined at the time of borrowing, and short term credits necessary for settlement of securities transactions, which are not considered borrowing, the Trust will not engage in borrowing.

In the event that the total amount borrowed by the Trust exceeds at any time 25% of the Total Assets, determined at the time of borrowing, the Manager will instruct the Advisor to liquidate Trust Investments in an orderly manner and use the proceeds therefrom to reduce indebtedness so that the amount borrowed by the Trust does not exceed 25% of Total Assets.

In order to achieve its targeted monthly distributions to Unitholders, the Trust intends to draw down under the Loan Facility an amount equal to approximately 20% of the Total Assets (including securities purchased with the amount borrowed) for the purposes of purchasing High Income Investments. The balance of the Loan Facility will be drawn down in such amounts and applied to such purposes as may be determined by the Manager in its sole discretion from time to time.

#### USE OF PROCEEDS

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

	Minimum Offering	Maximum Offering	Maximum Offering and Exercise of Over-Allotment Option
Gross proceeds to the Trust . . . . .	\$40,000,000	\$150,000,000	\$172,500,000
Agents' fees . . . . .	\$ 2,200,000	\$ 8,250,000	\$ 9,487,500
Estimated expenses of issue . . . . .	\$ 600,000	\$ 600,000	\$ 600,000
Net proceeds to the Trust . . . . .	\$37,200,000	\$141,150,000	\$162,412,500

The Trust will use the net proceeds of this Offering primarily to acquire High Income Investments in accordance with the Investment Objectives and the Investment Strategy and subject to the Investment Restrictions.

The Agents' fees and all other expenses of the Offering (including the cost of creating and organizing the Trust, the cost of preparing and printing this prospectus and certificates representing the Trust Units, legal expenses of the Trust and the Agents and certain other expenses) will be paid by the Trust out of the gross proceeds of the Offering.

Pending investment in High Income Investments, which will be made as expeditiously as prudent investment practice permits and which may take several months depending on market conditions, the Trust will hold the proceeds of the Offering in accordance with the terms of the Declaration of Trust and will cause the Advisor to deposit the proceeds of the Offering in Short Term Investments. It is anticipated that investment of the net proceeds of the Offering in High Income Investments will be concluded within six months of Closing.

## THE MANAGER AND THE MANAGEMENT AGREEMENT

### **The Manager**

Brompton VIP Management Limited was incorporated pursuant to the *Business Corporations Act* (Ontario) on October 22, 2001. Its head office is at Suite 2315, Royal Bank Plaza, South Tower, 200 Bay Street, Toronto, Ontario M5J 2J2. The Manager was organized for the purpose of managing and administering the Trust. The Manager is a member of the Brompton group of companies.

### **Brompton Group of Companies**

The Brompton group of companies (“Brompton”) operates out of offices in Toronto at Suite 2315, Royal Bank Plaza, South Tower, 200 Bay Street, Toronto, Ontario M5J 2J2 and in Calgary at Suite 2750, Sun Life Plaza, North Tower, 140 - 4th Avenue S.W., Calgary, Alberta T2P 3N3. Brompton provides a variety of investment banking and financial services to its Canadian and international clientele through three principal operating businesses: asset management; merchant banking; and agency and advisory services. Brompton and its directors and officers have extensive experience in managing financial assets and public and private entities including the management of Income Funds. From June 1998 to April 2001, a member of Brompton (and its predecessor) was the manager of Western Facilities Fund, a public Income Fund engaged in the operation of a large natural gas processing facility and oil pipelines. The assets of Western Facilities Fund were sold in 2000 and in April 2001 it was merged with Danoil Energy Limited to continue as Acclaim Energy Trust, an Oil and Gas Fund. At that time Brompton’s management agreement with Western Facilities Fund was terminated and the management of Danoil Energy Limited took over the management of the continuing fund. Brompton’s directors and officers have also had extensive practical operating experience in industries such as real estate, oil and gas and independent power which are represented in Income Funds. Brompton typically invests its own capital in the assets and investment vehicles which it manages and an affiliate of the Manager will subscribe for a minimum of 250,000 Trust Units at a cost of \$2,500,000 pursuant to the Offering. In this way, the Manager’s interests will be aligned with those of the Unitholders.

Brompton has a successful merchant banking operation. It provides debt and equity capital to a variety of industries including energy, real estate, financial services and venture capital. Brompton prefers to take a significant stake in its investee companies and provides advisory and strategic planning services along with its capital.

Brompton Securities Limited, a member of Brompton, is registered with the Ontario Securities Commission as a limited market dealer. Brompton Securities Limited acts as agent for the private placement of debt and equity securities for public and private companies and provides a number of financial advisory services, including the negotiation of mergers and acquisitions.

### **Directors and Officers of the Manager**

The board of directors of the Manager consists of a minimum of three and a maximum of nine directors. The board is currently comprised of seven members.

Directors are appointed to serve on the board of directors of the Manager until such time as they retire or are removed and their successors are appointed. The directors and officers of the Manager collectively have extensive experience in the analysis and understanding of the risks associated with some of the businesses underlying the securities that may comprise the Trust Investments. The Advisor will draw upon this experience when necessary in analyzing potential investments for the Trust.

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

<u>Name and Municipality of Residence</u>	<u>Position with the Manager</u>	<u>Principal Occupation</u>
AUBREY W. BAILLIE Toronto, Ontario	Director	Corporate Director
PETER A. BRAATEN Toronto, Ontario	Director	Chairman, Brompton Limited
DONALD W.C. LILLIE Toronto, Ontario	President and Director	President, Brompton VIP Management Limited
P. MICHAEL NEDHAM Toronto, Ontario	Director	Chairman, Brompton Securities Limited
RAYMOND R. PETHER Toronto, Ontario	Director	President, Brompton Limited
PETER L. WALLACE Toronto, Ontario	Chairman of the Board and Director	Corporate Director
KEN S. WOOLNER Calgary, Alberta	Director	Corporate Director
MARK D. BEACOM Calgary, Alberta	Executive Vice President	Managing Director, Energy Division, and Chief Executive Officer, Omega Power Generation Corp.
MARK A. CARANCI Toronto, Ontario	Chief Financial Officer	Vice President and Chief Financial Officer, Brompton Limited
MOYRA E. MACKAY Toronto, Ontario	Vice President & Secretary	Vice-President and Corporate Secretary, Brompton Limited

A description of the experience and background relevant to the business of the Trust for each of the directors and officers of the Manager is set out below.

***Aubrey W. Baillie (Director)***

Aubrey Baillie has over 29 years of experience in the investment business and recently retired as Deputy Chairman and Chief Operating Officer of BMO Nesbitt Burns Inc. From 1976 to 1999, Mr. Baillie held various senior positions at BMO Nesbitt Burns Inc. and its predecessor companies, including the office of President and Chief Operating Officer from 1990 to September 1994, the office of Executive Vice-President, Administration, Finance and Operations from 1987 to 1990, and the office of President and Chief Operating Officer from 1976 to 1986. Mr. Baillie is a member of the board of directors of each of Ausnoram Holdings Ltd., Newport Partners Inc., Brompton Securities Limited and The NRG Group Inc. Mr. Baillie received his Bachelor of Arts degree (honours) in business administration from the University of Western Ontario in 1967 and was awarded his chartered accountant designation in 1970. Mr. Baillie is the past Chairman of the board of trustees of the United Way of Greater Toronto, Chairman of the Appleby College Foundation and a member of the board of directors of each of the Shaw Festival, Wellspring and the Juvenile Diabetes Foundation International.

***Peter A. Braaten (Director)***

Peter Braaten has over 30 years experience in the investment business in Canada and the United Kingdom, including experience as Chief Executive Officer of two public companies. Mr. Braaten co-founded Brompton Limited in 2000 and serves as Chairman of Brompton Limited. Prior thereto, Mr. Braaten was President and

Chief Executive Officer of Morrison Middlefield Resources Limited and 2M Energy Corp., both public oil and gas companies. Mr. Braaten was one of the founders of the Middlefield Group in 1979 and was a partner of the group from 1981 to 1998. Prior to 1981, Mr. Braaten held a number of positions with an investment management firm, an investment bank and two Canadian chartered banks. Mr. Braaten has also held senior level positions in real estate finance at a Canadian chartered bank and an investment dealer. Mr. Braaten received an honours Bachelor of Arts degree in economics and mathematics from The University of Western Ontario in 1967 and a Masters of Business Administration from the University of British Columbia in 1969. Mr. Braaten is a member of the board of directors of Brompton Limited, Middlefield Bancorp Limited, Bow Valley Energy Ltd. and The NRG Group Inc.

***Donald W.C. Lillie (President and Director)***

Don Lillie has over 30 years business experience and joined Brompton Limited in July 2001. From January 1994 to July 2001, Mr. Lillie was Chairman and Chief Executive Officer of International Strategic Capital Corp, a securities dealer which he founded which provides financial and management services to small/medium sized ventures. From September 1989 to January 1994, Mr. Lillie was President of Middlefield Securities Limited and was actively involved in corporate finance, venture capital and the creation of a number of resource and real estate investments. Prior to 1989, Mr. Lillie held senior positions with Suncor Inc., Gulf Canada Inc., Canterra Energy Inc., and Shell Canada Ltd. with responsibilities including corporate planning, treasury operations, corporate finance and management of a \$600 million pension fund and an \$800 million short-term investment portfolio. Mr. Lillie also acted as a Pension Fund Portfolio Manager for National Trust Company Ltd. Mr. Lillie has an Honours Bachelor of Arts in Economics from Lakehead University and a Masters of Business Administration from York University.

***P. Michael Nedham (Director)***

Michael Nedham has over 30 years experience in the investment business and joined Brompton Securities Limited as Chairman in September 2001. Mr. Nedham co-founded Canada's first mergers and acquisitions group in 1971 at Burns Bros. & Denton Ltd. (a predecessor of Burns Fry Limited and BMO Nesbitt Burns Inc.), and served on its board of directors from 1974 to 1986. In 1986, Mr. Nedham co-founded Lancaster Financial, Inc., a mergers and acquisitions boutique and merchant banking firm. In 1995, Lancaster Financial, Inc. was sold to TD Securities Inc. and Mr. Nedham became one of the Managing Directors of TD Securities Inc. Mr. Nedham left TD Securities in 1998 to form Michael Nedham & Associates, Ltd., a specialized financial advisory firm. Mr. Nedham is Co-General Partner of a private capital fund which invests in the Canadian oil and gas industry. Mr. Nedham has a Bachelor of Science in Engineering from Queen's University, a Masters of Business Administration from the University of Western Ontario and is a member of the Canadian Institute of Chartered Business Valuators. He is a member of the board of directors of Brompton Securities Limited, Newport Partners Inc., x.eye incorporated and a private investment company, and is a member of the board of trustees of The Crescent School Foundation and a past member of the Olympic Trust of Canada.

***Raymond R. Pether (Director)***

Raymond Pether has over 25 years experience in the investment business having held numerous high level banking, real estate finance and investment positions. Mr. Pether co-founded Brompton Limited in 2000 and provides direction to all activities of the group. Formerly, Mr. Pether was President and Chief Executive Officer of Western Facilities Fund, a public income trust engaged in the operation of oil and gas midstream assets from June 1998 to April 2001. From January 1994 to August 1999, Mr. Pether was Chief Operating Officer of Morrison Middlefield Resources Limited and from August 1999 to November 2000, he was Executive Vice-President of 2M Energy Corp., both of which were public oil and gas companies. From 1983 to 1993, Mr. Pether was President of Middlefield Resources Limited. From 1994 to June 1998, Mr. Pether was Vice President of Middlefield Securities Limited and from June 1998 to July 2000, Mr. Pether was Executive Vice President of Middlefield Securities Limited. Mr. Pether is a member of the board of directors of Acclaim Energy Inc., the underlying company of Acclaim Energy Trust, an oil and gas income trust, and of Brompton

Limited. Mr. Pether has a Bachelor of Arts in economics from the University of Western Ontario and a Masters of Business Administration from McMaster University.

***Peter L. Wallace (Chairman of the Board and Director)***

Peter Wallace has over 20 years experience in the investment business. From 1997 to 1999, Mr. Wallace was President of Wealth Management at Canada Trust Financial Services Inc. From 1996 to 1997, Mr. Wallace was the founder and Chief Executive Officer of a private investment firm. From 1987 to 1995, Mr. Wallace held various senior positions at Midland Walwyn Capital Inc. (now Merrill Lynch Canada Inc.), and its predecessor companies, including the office of President from 1991 to 1995 and the offices of Executive Vice-President and Chief Operating Officer from 1987 to 1990. In addition, Mr. Wallace was a member of the board of directors of Midland Walwyn Inc. from 1987 to 1995. From 1978 to 1987, Mr. Wallace held various senior positions at Wood Gundy Inc. (now CIBC World Markets Inc.) in the areas of investment banking and private client investments. Mr. Wallace received his Bachelor of Arts degree in commerce from McGill University in 1976 and a Masters of Business Administration degree from the University of Western Ontario in 1978. Mr. Wallace is a member of the board of directors of each of The NRG Group Inc., Brompton Securities Limited and Newport Partners Inc., is President of Blythco Inc. and is Chairman of Crescent School.

***Ken S. Woolner (Director)***

Ken Woolner has over 18 years experience in the oil and gas industry. Mr. Woolner was the President and Chief Executive Officer and a director of Velvet Exploration Ltd. from April 1997 to July 2001 when it was acquired by El Paso Oil & Gas Canada Inc. He became a director of El Paso Oil & Gas Canada Inc. in July 2001. From November 1991 to March 1997, Mr. Woolner was employed by Morrison Petroleum Ltd., a public oil and gas company, in various positions, including Vice President, Marketing and Executive Vice President of CGGS Canadian Gas Gathering Systems Inc., a private company managed by Morrison Petroleum Ltd. In addition, Mr. Woolner was a director of Nevis Ltd., the underlying company of Western Facilities Fund, a public income trust. Mr. Woolner is a professional engineer and received a Bachelor of Science in Geological Engineering from the University of Toronto in 1983.

***Mark D. Beacom (Executive Vice President)***

Mark Beacom has over 20 years experience in the areas of acquisitions, business development and project management with a focus in the energy sector and is currently Managing Director of the energy division of Brompton Limited and President and Chief Executive Officer of Omega Power Generation Corp. Mr. Beacom was the Chief Operating Officer of Western Facilities Fund, a public income trust from September 1999 to April 2001. Prior to returning to Canada, Mr. Beacom was project director of the largest onshore gas field development in the United Kingdom between October 1998 and August 1999. From January 1995 to October 1998, Mr. Beacom founded and was Managing Director of a private offshore oil company in the United Kingdom. Mr. Beacom also held senior business development positions with ARCO British Limited commencing in 1990 where his activities focused on acquisition and development of offshore oil and gas fields. Mr. Beacom received his Bachelor of Science in Mechanical Engineering from Queen's University in 1982 and a Masters of Business Administration from The London Business School, London, UK in 1990. Mr. Beacom is a member of The Association of Professional Engineers, Geologists and Geophysicists of Alberta.

***Mark A. Caranci (Chief Financial Officer)***

Mark Caranci has over ten years financial experience with public and private companies. Mr. Caranci has been the Vice President and Chief Financial Officer of Brompton Limited since 2000. Formerly, Mr. Caranci was Vice President at the Middlefield Group from 1996 to 2000. Mr. Caranci has held various senior positions with public companies, including Chief Financial Officer of Western Facilities Fund from December, 2000 to April, 2001, Vice President of Finance of 2M Energy Corp. from August, 1999 to November 2000, and Vice President, Finance of Morrison Middlefield Resources Limited, from January 1997 to August 1999. Prior to 1996, Mr. Caranci worked at Price Waterhouse, Chartered Accountants. Mr. Caranci is a Chartered Accountant and is a member of the Ontario Institute of Chartered Accountants and received a Bachelor of Commerce from the University of Toronto.

***Moyra E. MacKay (Vice President and Secretary)***

Moyra MacKay has over 25 years experience in the investment business having held positions in real estate and resource finance and investment and financial services firms. Ms. MacKay is Vice President and Corporate Secretary of Brompton Limited. Ms. MacKay was Vice President of 2M Energy Corp. from August 1999 to November 2000 and a Vice President of Morrison Middlefield Resources Limited from July 1998 to August 1999. From June 1996 to September 1999, Ms. MacKay was Vice President of Middlefield International Limited, which is registered with The Securities and Futures Authority in London U.K.

No director or officer of the Manager is, or within ten years prior to the date of this prospectus has been, a director, officer or promoter of any issuer that, while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the company access to any statutory exemptions for a period of more than 30 consecutive days or was declared a bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or was subjected to or instituted any proceeding, arrangement or compromise with creditors or had a receiver, receiver-manager or trustee appointed to hold the assets of that person, except as follows.

On July 31, 1990, the Ontario Securities Commission made an order ceasing trading by Middlefield Capital Fund and Middlefield Financial Limited in shares of HERO Industries Ltd., a Canadian public corporation, and denying Middlefield Capital Fund and Middlefield Financial Limited access to certain statutory exemptions in respect of trading in shares of HERO Industries Ltd. This cease trade order related to an acquisition of shares of HERO Industries Ltd. by Middlefield Financial Limited for resale to Middlefield Capital Fund, an equity investment fund managed by Middlefield Ventures Limited, an affiliate of Middlefield Financial Limited. This purchase, while made in technical compliance with the requirements of the *Securities Act* (Ontario), was found by the Ontario Securities Commission to violate the spirit of the *Securities Act* (Ontario) as it was designed, and had the effect of, defeating a formal takeover bid for the shares of HERO Industries Ltd. The order provided that it did not apply to trades in respect of the acceptance of a formal takeover bid made for shares of HERO Industries Ltd. in compliance with the *Securities Act* (Ontario) and that it would cease to apply upon the completion of a formal takeover bid made by Middlefield Capital Fund or Middlefield Financial Limited, or an associate or an affiliate thereof, in compliance with the *Securities Act* (Ontario) at a minimum price set out in the order. In October 1996, a wholly-owned subsidiary of Middlefield Financial Limited completed a takeover bid for HERO Industries Ltd. above the threshold price referred to in the order. This resulted in the order ceasing to apply. During the period from July 1990 to October 1996, Peter Braaten was a director and Raymond Pether was an officer of Middlefield Financial Limited.

**Remuneration of Directors and Officers**

The officers of the Manager are employees or consultants of the Manager and will receive their remuneration from the Manager. The expenses (excluding fees) of the directors of the Manager and the premiums for directors' and officers' insurance coverage for the directors and officers of the Manager will be paid by the Trust. Directors of the Manager who are employed full time by the Manager or its affiliates will not be entitled to be paid directors' fees. See "The Manager and the Management Agreement – Directors and Officers of the Manager".

**Management Agreement**

The terms of the Management Agreement were established by the Manager, as manager and promoter of the Trust, and the Agents in accordance with what the Manager and the Agents considered to be fair and commercially acceptable to the Trust and to purchasers of Trust Units.

Pursuant to the Management Agreement, the Manager has exclusive authority to manage the business and affairs of the Trust and to make all decisions regarding the business of the Trust and has authority to bind the Trust. The Manager may, pursuant to the terms of the Management Agreement, delegate certain of its powers to third parties at no additional cost to the Trust where, in the discretion of the Manager, it would be in the best interests of the Trust and the Unitholders to do so. The Manager is required to exercise its powers and perform its duties honestly, in good faith and in the best interests of the Trust and the Unitholders and to exercise the care, diligence and skill that a reasonably prudent and qualified manager would exercise in comparable



circumstances. The Management Agreement provides that the Manager will not be liable in any way for any default, failure or defect in any of the Trust Investments if it has satisfied the duties and the standard of care, diligence and skill set forth above. The Manager will incur liability, however, in cases of wilful misconduct, bad faith, negligence or disregard of its duties or standard of care, diligence and skill or material breach or default of the Manager's obligations under the Management Agreement. Among other restrictions imposed on the Manager, it may not dissolve the Trust or wind up the Trust's affairs except in accordance with the provisions of the Declaration of Trust.

The Manager has coordinated the organization of the Trust, will work to develop and implement all aspects of the communications, marketing and distribution strategies of the Trust and will manage the ongoing business and administration of the Trust. The Manager will be responsible for ensuring that the proceeds of the Offering are invested as described under "Use of Proceeds", but will not participate in the day-to-day management of the Trust Investments. Funds of the Manager will not be commingled with those of the Trust.

Under the terms of the Management Agreement, the Manager is responsible for providing, or causing to be provided, management and administrative services and facilities to the Trust, including, without limitation:

- (a) appointing and monitoring the performance of the Advisor, including the Advisor's adherence to the Investment Objectives, Investment Strategy and Investment Restrictions, as well as monitoring relationships with the Custodian, registrar and transfer agent, auditors, legal counsel and other organizations or professionals serving the Trust;
- (b) monitoring the suitability of the Investment Strategy to meet the Investment Objectives and preparing for adoption by the Unitholders any amendments to the Investment Objectives, Investment Strategy or Investment Restrictions which the Manager believes are in the best interests of Unitholders;
- (c) the authorization and payment on behalf of the Trust of expenses incurred on behalf of the Trust and the negotiation of contracts with third party providers of services (including, but not limited to, custodians, transfer agents, legal counsel, auditors and printers);
- (d) the provision of office space, telephone service, office equipment, facilities, supplies and executive, secretarial and clerical services;
- (e) the preparation of accounting, management and other reports, including quarterly and annual reports to Unitholders, financial statements, tax reporting to Unitholders and income tax returns;
- (f) keeping and maintaining the books and records of the Trust and the supervision of compliance by the Trust with record keeping requirements under applicable regulatory regimes;
- (g) the calculation of the amount, and the determination of the frequency, of Distributions by the Trust;
- (h) communications and correspondence with Unitholders and the preparation of notices of distributions to Unitholders;
- (i) establishing and monitoring the Reinvestment Plan, and amending, modifying, suspending or terminating the Reinvestment Plan in a manner which the Manager believes is in the best interests of Unitholders;
- (j) the preparation and supervision of the publication of the Net Asset Value of the Trust;
- (k) responding to investors' inquiries and general investor relations in respect of the Trust;
- (l) dealing with banks and custodians, including the maintenance of bank records and the negotiation and securing of bank financing or refinancing;
- (m) the setting of debt levels of the Trust, subject to the Investment Restrictions;
- (n) obtaining such insurance as the Manager considers appropriate for the Trust;
- (o) arranging for the provision of services by CDS for the administration of the Book-Entry Only System with respect to the Trust Units;
- (p) reviewing fees and expenses charged to the Trust and ensuring the timely payment thereof; and

(q) ensuring:

- (i) that the Trust complies with all regulatory requirements and applicable stock exchange listing requirements;
- (ii) the preparation and delivery of the Trust's reports to and dealing with relevant securities regulatory authorities and any similar organization of any government or any stock exchange to which the Trust is obligated to report;
- (iii) the organization of meetings of Unitholders; and
- (iv) the provision of such other managerial and administrative services as may be reasonably required for the ongoing business and administration of the Trust.

In consideration for these services, the Trust will pay to the Manager the Management Fee and will reimburse the Manager for all reasonable costs and expenses incurred by the Manager on behalf of the Trust. See "Fees and Expenses Payable by the Trust – Management Fee". In addition, the Manager and each of its directors, officers, employees, consultants and agents will be indemnified and reimbursed by the Trust to the fullest extent permitted by law against all liabilities and expenses (including judgments, fines, penalties, interest, amounts paid in settlement with the approval of the Trust and counsel fees and disbursements on a solicitor and client basis) reasonably incurred in connection with acting as the Manager or a director, officer, employee, consultant or agent thereof, including in connection with any civil, criminal, administrative, investigative or other action, suit or proceeding to which any such person may hereafter be made a party by reason of being or having been the Manager or a director, officer, employee, consultant or agent thereof, except for liabilities and expenses resulting from the person's wilful misconduct, bad faith, negligence, disregard of the Manager's duties or standard of care, diligence and skill or material breach or default of the Manager's obligations under the Management Agreement.

The Trust will pay to the Manager a Service Fee calculated quarterly and paid as soon as practicable after the end of each calendar quarter), equal to 0.40% per annum of the Net Asset Value of Trust Units held at the end of the relevant quarter by clients of dealers, plus applicable taxes. The Service Fee will be applied by the Manager to pay a service fee in an equivalent aggregate amount, plus applicable taxes, to dealers based on the number of Trust Units held by the clients of such dealers at the end of the relevant quarter.

The Management Agreement may be terminated at any time by the Trust on 90 days' written notice provided that an Ordinary Resolution approving the termination of the Management Agreement is approved and Unitholders voting in favour of such Ordinary Resolution represent Trust Units equal to at least ten percent of the Trust Units outstanding on the record date of the meeting held to approve the Ordinary Resolution. The Management Agreement may be terminated by the Trust at any time on 30 days' written notice to the Manager in the event of the persistent failure of the Manager to perform its duties and discharge its obligations under the Management Agreement, or the continuing malfeasance or misfeasance of the Manager in the performance of its duties under the Management Agreement. The Management Agreement may be terminated immediately by the Trust in the event of the commission by the Manager of any fraudulent act and shall be automatically terminated if the Manager becomes bankrupt, insolvent or makes a general assignment for the benefit of its creditors. The Manager may assign the Management Agreement to an affiliate of the Manager at any time. The Manager may resign upon 120 days' notice. If no new manager is appointed within such 120-day period, the Trust will be terminated. Other than fees and expenses payable to the Manager pursuant to the Management Agreement to and including the date of termination, no additional payments will be required to be made to the Manager as a result of any termination.

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

## THE ADVISOR AND THE ADVISORY AGREEMENT

### The Advisor

Elliott & Page Limited has been retained to provide investment advisory and portfolio management services to the Trust pursuant to the Advisory Agreement. Elliott & Page Limited was founded in 1949 and is a wholly-owned subsidiary of Manulife Financial Corporation. The principal office of the Advisor is located at 200 Bloor Street East, Toronto, Ontario, Canada, M4W 1E5.

The Advisor's business is investment management. It has assets under management of approximately \$42 billion of which about \$2 billion are mutual funds. Its parent company, Manulife Financial Corporation, is active in various financial services, including insurance operations (including segregated funds and annuities), mutual funds, pension management and banking. Manulife Financial Corporation has assets under management of approximately \$135 billion.

Elliott & Page Limited's mission is to provide superior long-term returns for every client, consistent with their individual objectives, constraints, and risk tolerance.

The Advisor's investment philosophy relies heavily on utilizing fundamental equity research to identify exceptional investment opportunities at reasonable valuations. The Advisor favours investing in entities with proven, successful management teams and is a long-term investor in successful businesses as opposed to a short term speculator in equity securities.

### The Elliott & Page Monthly High Income Fund

The Advisor manages the Elliott & Page Monthly High Income fund which has assets of approximately \$100 million, the majority of which are invested in the asset classes targeted by the Trust.

The following chart lists the annual returns of the Elliott & Page Monthly Income Fund for the one year and three year periods ended November 30, 2001 as compared to average annual returns for the same periods for the class of funds designated by Morningstar Canada as Canadian Income Trusts. Morningstar Canada is a research company which provides performance data on a wide variety of investment funds in Canada.

	Annual Returns to November 30, 2001 <sup>(1)</sup>	
	<u>1 year</u>	<u>3 year</u>
Elliott & Page Monthly High Income Fund . . . . .	21.9%	15.8%
Canadian Income Trusts designated as such by Morningstar Canada . . . . .	14.9%	10.6%

Notes:

(1) Returns are calculated net of fees.

**There can be no assurance that the performance of the Trust will equal or exceed the performance of the Elliott & Page Monthly High Income Fund. None of the other funds or accounts in respect of which the Advisor acts as investment advisor has an asset mix comparable to that of the Elliott & Page Monthly High Income Fund or the anticipated asset mix of the Trust. Further, none of the other funds or accounts in respect of which the Advisor acts as investment advisor have investment objectives, investment strategies and investment restrictions similar to those of the Trust.**

The Manager will be responsible to pay the fee payable to the Advisor pursuant to the Advisory Agreement. Such fee is payable by the Manager (which effectively reduces the Management Fee to the Manager) and is not payable or reimbursable by the Trust.

The employees of Elliott & Page Limited who will be involved in the provision of investment management services by Elliott & Page Limited to the Manager under the Advisory Agreement are as follows.

<b>Name and Municipality of Residence</b>	<b>Position with the Advisor</b>	<b>Principal Occupation</b>
ALAN WICKS Toronto, Ontario	Assistant Vice President	Assistant Vice President, Elliott & Page Limited
CINDY L. FORBES Toronto, Ontario	Vice President and Managing Director High Yield & Structured Products	Vice President and Managing Director High Yield & Structured Products, Elliott & Page Limited

***Alan Wicks, CFA (Assistant Vice President)***

Mr. Wicks joined Elliott & Page Limited in 1996 as an analyst on the Canadian equity team. He focuses on fundamental research of Canadian equities included in all the Advisor’s institutional and retail mandates as well as being portfolio manager for retail mandates. Mr. Wicks is responsible for the Elliott & Page Monthly High Income Fund and works on the Elliott & Page Value Equity Fund and the Canadian Equity portion of the Elliott & Page Balanced Fund.

Prior to joining the Advisor, Mr. Wicks held the position of Supervisor, Pension Accounting at Aetna Canada. Mr. Wicks began his investment career at Aetna Canada in 1991 as a Financial Analyst. Mr. Wicks’s education background includes a degree in Economics from the University of Toronto. Mr. Wicks holds the Chartered Financial Analyst designation.

***Cindy Forbes, FSA, FCIA (Vice President and Managing Director)***

Ms. Forbes is Vice President and Managing Director of High Yield and Structured Products at Elliott & Page Limited. She is supported by a team of six Toronto-based high yield portfolio managers and analysts. Prior to being appointed to the high yield desk, Ms. Forbes was Vice President and Chief Financial Officer, Investments, Manulife Financial Corporation. In this role she was responsible for asset liability management, market risk management, investment controllers and compliance within Manulife Financial Corporation. Ms. Forbes has extensive experience in assessing complex financial structures and issues. She received an Honours Bachelor of Mathematics from the University of Waterloo, and in 1980, received her fellowship from the Society of Actuaries. Ms. Forbes joined Manulife Financial Corporation in 1980. Elliott & Page Limited manages approximately \$650 million in High Yield Debt.

**The Advisory Agreement**

Pursuant to the terms of the Advisory Agreement, the Advisor will be responsible for implementing the Investment Strategy and will select investments based on its assessment of the relative risk/reward characteristics of prospective investments at any point in time, subject to the Investment Restrictions. This assessment will be based on fundamental research and analysis of an investment which would include a review of the track record of management, profit margins, growth rates, leverage levels, susceptibility to changes in commodity prices, life of underlying assets, net asset value relative to trading price and earnings, cash flow and distributions relative to market price. See “Investment Objectives, Strategy and Restrictions – Investment Strategy”. Subject to compliance with the Investment Objectives, the Investment Strategy and the Investment Restrictions, neither the Manager nor the Trustee may approve or reject any High Income Investment proposed by the Advisor. The Advisor’s appointment may be terminated by the Trust, or by the Manager, on behalf of the Trust, as described below. No fees are payable or reimbursable by the Trust for the services of the Advisor. The Manager is responsible for paying the fees of the Advisor.

In the Advisory Agreement, the Advisor covenants to act at all times on a basis which is fair and reasonable to the Trust, to act honestly and in good faith and in the best interests of the Trust and the Unitholders and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent and qualified portfolio manager would exercise in comparable circumstances. The Advisory Agreement provides that the

Advisor will not be liable in any way for any default, failure or defect in any of the Trust Investments if it has satisfied the duties and the standard of care, diligence and skill set forth above. The Advisor may incur liability to the Trust, however, in cases of wilful misconduct, bad faith, negligence or reckless disregard of its duties or standard of care, diligence and skill set forth above or material breach of the Advisor's obligations under the Advisory Agreement.

The Advisor may, from time to time, seek the assistance of the directors and officers of the Manager in evaluating the businesses underlying the securities in which the Trust may invest.

The services of the Advisor are not exclusive to the Trust. The Advisor and its affiliates and associates (as defined in the *Securities Act* (Ontario)) may, at any time, engage in the promotion or management of any other fund, trust or investment portfolio. Since the Advisor will continue to manage the investments of its other clients, the Advisor may acquire or dispose of the same investment for the Trust and one or more of its other clients. However, because of different investment policies, the Advisor may be selling an investment for one client and buying the same investment for another client. Under the Advisory Agreement, the Advisor has agreed to allocate opportunities to acquire and dispose of investments fairly among the Trust and its other clients that have similar investment objectives.

The Manager can terminate the Advisory Agreement at any time with 90 days' notice or may terminate the Advisory Agreement on ten days' notice for an uncured breach of the Advisory Agreement by the Advisor following notice of such breach by the Manager, on behalf of the Trust, or immediately in events of insolvency or liquidation of the Advisor or if the Advisor becomes bankrupt or passes a resolution approving its winding-up or dissolution or deemed dissolution or makes a general assignment for the benefit of its creditors. The Advisor's appointment may be immediately terminated by the Manager, on behalf of the Trust, in the event of the commission by the Advisor of any fraudulent act in the performance of its duties under the Advisory Agreement or any misrepresentation in the Advisory Agreement.

The Advisor is entitled to fees for its services which are payable by the Manager under the Advisory Agreement as described under "The Manager and the Management Agreement – The Management Agreement" and will be reimbursed by the Trust for all reasonable costs and expenses incurred by the Advisor on behalf of the Trust. In addition, the Advisor, and each of its directors, officers, employees, consultants and agents, will be indemnified by the Trust to the fullest extent permitted by law against all losses, claims, judgments, fines, penalties, interest, liabilities and expenses (including judgments, fines, penalties, interest, amounts paid in settlement with the approval of the Trust and counsel fees and disbursements on a solicitor and client basis) reasonably incurred in connection with acting as the Advisor or a director, officer, employee, consultant or agent thereof, including in connection with any civil, criminal, administrative, investigative or other action, suit or proceeding to which any such person may hereafter be made a party by reason of being or having been the Manager or a director, officer, employee, consultant or agent thereof, except for liabilities and expenses resulting from the person's wilful misconduct, bad faith, negligence, disregard of the Advisor's duties or standard of care, diligence and skill or material breach or default of the Advisor's obligations under the Advisory Agreement.

In the event that the Advisory Agreement is terminated, the Manager, on behalf of the Trust, will appoint a successor Advisor to carry out the activities of the Advisor.

### **Portfolio Transactions and Brokerage**

The Advisor is responsible for selecting members of securities exchanges, brokers and investment dealers for the execution of transactions in respect of the Trust Investments and, when applicable, the negotiation of commissions in connection therewith. The Trust will be responsible to pay those commissions. Brompton Securities Limited may earn fees on the purchase or sale of securities by the Trust provided that the terms of such transactions are no less favourable to the Trust than those which would be obtained from parties which are at arm's length.

## **FEES AND EXPENSES PAYABLE BY THE TRUST**

### **Initial Fees and Expenses**

The expenses of the Offering (including the costs of creating and organizing the Trust, the costs of printing and preparing the prospectus, legal expenses, marketing expenses and other reasonable out-of-pocket expenses incurred by the Agents) and other incidental expenses will be paid out of the gross proceeds of the Offering. The expenses of the Offering are estimated to be \$600,000. In addition, the Agents' fee will be paid to the Agents from the gross proceeds as described under "Plan of Distribution".

### **Management Fee**

The Manager will receive an annual fee equal to 0.85% per annum of Net Asset Value, calculated and payable monthly in arrears plus applicable taxes. The Manager is responsible for paying the fees payable to the Advisor pursuant to the Advisory Agreement.

### **Service Fee**

The Trust will pay to the Manager a Service Fee (calculated quarterly and paid as soon as practicable after the end of each calendar quarter), equal to 0.40% per annum of the Net Asset Value of Trust Units held at the end of the relevant quarter by clients of dealers, plus applicable taxes. The Service Fee will be applied by the Manager to pay a service fee in an equivalent aggregate amount, plus applicable taxes, to dealers based on the number of Trust Units held by clients of such dealers at the end of the relevant quarter.

### **Ongoing Expenses**

The Trust will pay all expenses incurred in connection with the operation and administration of the Trust, including, without limitation, the Trustee's fees, the Management Fee, the Service Fee, custodial fees, legal, audit and valuation fees and expenses, expenses (excluding fees) of the directors of the Manager, premiums for directors' and officers' insurance coverage for the directors and officers of the Manager, Unitholder reporting costs, registrar, transfer and distribution agency costs, printing and mailing costs, listing fees and expenses and other administrative expenses and costs incurred in connection with the Trust's continuous public filing requirements and investor relations, taxes, brokerage commissions, costs and expenses relating to the issue of Trust Units, costs and expenses of preparing financial and other reports, costs and expenses arising as a result of complying with all applicable laws, regulations and policies and all amounts paid by the Trust on account of the indebtedness of the Trust, but excluding the fees payable to the Advisor pursuant to the Advisory Agreement. Such expenses will also include expenses of any action, suit or other proceedings in which or in relation to which the Manager, the Advisor, the Custodian or the Trustee and/or any of their respective officers, directors, employees, consultants or agents is entitled to indemnity by the Trust.

The Manager estimates that ongoing expenses, exclusive of debt service and other costs related to the Loan Facility and brokerage expenses related to Trust Investment transactions, will be approximately \$225,000 per year.

### **Additional Services**

Any arrangements for additional services between the Trust and the Manager, or any affiliate thereof, that have not been described in this prospectus shall be on terms that are no less favourable to the Trust than those available from arm's length parties (within the meaning of the Tax Act) for comparable services and the Trust shall pay all expenses associated with such additional services.

## **VALUATION, TOTAL ASSETS AND NET ASSET VALUE**

The Net Asset Value per Trust Unit on any Valuation Date shall be calculated by dividing the Net Asset Value on such Valuation Date by the total number of Trust Units outstanding on such Valuation Date (before giving effect to any issue of Trust Units issued on that date). The Manager will calculate the Net Asset Value per Trust Unit as at the close of business on each Valuation Date. The Manager may, at its discretion, elect to calculate the Net Asset Value per Trust Unit more frequently than Thursday of each week, in which case the

date on which such calculation is made shall also be deemed to be a Valuation Date. The Trust will make available to the financial press for publication on a weekly basis the Net Asset Value per Trust Unit.

For the purpose of calculating Net Asset Value per Trust Unit on such Valuation Date, Net Asset Value will be calculated by subtracting the aggregate amount of the Trust's liabilities from the Total Assets. The Total Assets on such Valuation Date will be determined as follows:

- (a) the value of any cash on hand or on deposit, bills and demand notes and accounts receivable, prepaid expenses, distributions, dividends or other amounts received (or declared to holders of record of securities owned by the Trust on a date before the Valuation Date as of which the Total Assets are being determined, and to be received) and interest accrued and not yet received, shall be deemed to be the full amount thereof provided that if the Advisor has determined that any such deposit, bill, demand note, accounts receivable, prepaid expense, distribution, dividend or other amount received (or declared to holders of record of securities owned by the Trust on a date before the Valuation Date as of which the Total Assets are being determined, and to be received) or interest accrued and not yet received is not otherwise worth the full amount thereof, the value thereof shall be deemed to be such value as the Advisor determines to be the fair market value thereof;
- (b) the value of any security which is listed or traded upon a stock exchange (or if more than one, on the principal stock exchange for the security, as determined by the Advisor) shall be determined by taking the latest available sale price of recent date, or lacking any recent sales or any record thereof, the simple average of the latest available offer price and the latest available bid price (unless in the opinion of the Advisor such value does not reflect the value thereof and in which case the latest offer price or bid price shall be used), as at the Valuation Date on which the Total Assets are being determined, all as reported by any means in common use;
- (c) the value of any security which is traded over-the-counter will be priced at the average of the last bid and asked prices quoted by a major dealer in such securities;
- (d) the value of any security or other asset for which a market quotation is not readily available will be its fair market value on the Valuation Date on which the Total Assets are being determined as determined by the Advisor (generally the Advisor will value such Trust Investment at cost until there is a clear indication of an increase or decrease in value);
- (e) any market price reported in currency other than Canadian dollars shall be translated into Canadian currency at the rate of exchange available to the Trust from the Lender on the Valuation Date on which the Total Assets are being determined;
- (f) listed securities subject to a hold period will be valued as described above with an appropriate discount as determined by the Advisor and investments in private companies and other assets for which no published market exists will be valued at the lesser of cost and the most recent value at which such securities have been exchanged in an arm's length transaction which approximates a trade effected in a published market, unless a different fair market value is determined to be appropriate by the Advisor; and
- (g) the value of any security or property to which, in the opinion of the Advisor, the above principles cannot be applied (whether because no price or yield equivalent quotations are available as above provided, or for any other reason) shall be the fair market value thereof determined in good faith in such manner as the Advisor from time to time adopts.

The Net Asset Value per Trust Unit will be calculated in Canadian dollars.

## **DISTRIBUTIONS AND REINVESTMENT**

### **Monthly Distributions**

Commencing in the third month following the month in which Closing occurs, and on a monthly basis thereafter, each Unitholder of record at the close of business on the last Business Day of the preceding month will be entitled to receive a monthly Distribution. Unitholders will be entitled to participate equally in respect of each Unit held with respect to any and all Distributions made by the Trust. Distributions by the Trust will be paid on or about the tenth Business Day of the month to Unitholders of record at the close of business on the last Business Day of the preceding month. The objective is to generate tax efficient monthly Distributions of \$0.08125 per Trust Unit which is equal to a yield of 9.75% per annum based on the Offering Price of the Trust Units. The Trust may make other Distributions at any time in addition to monthly Distributions, if the Manager considers it appropriate.

Many of the issuers of the securities in which the Trust will invest are entitled to tax deductions relating to the nature of their assets, with the result that their cash distributions are anticipated to exceed the amount required to be included in the income of the recipients for some period of time. As a result, cash Distributions received by Unitholders from the Trust in a year are generally expected to exceed the amount required to be included in their income for tax purposes for some period of time.

The distributions received by the Trust from issuers whose securities are included in the Trust Investments may vary from month to month and certain of these issuers may pay distributions less frequently than monthly, with the result that the monthly cash available for distribution to Unitholders could vary substantially and there can be no assurance that the Trust will make any Distributions in any particular month or months. If the monthly cash available for Distributions to Unitholders is consistently higher or lower than \$0.08125 per Trust Unit, then the Manager on behalf of the Trust may re-evaluate its distribution policy. The Trust may also borrow pursuant to the Loan Facility to pay Distributions if it considers it appropriate.

In order to achieve the targeted monthly Distribution of \$0.08125 per Trust Unit, the Trust will be required to generate an average annual return on the Trust Investments of approximately 10.5% assuming the value of the Trust Investments does not change during the term of the Trust and assuming that the Trust borrows 20% of the Total Assets at a rate of 3.5% per annum to purchase additional Trust Investments. **There is no guarantee that the requisite 10.5% return will be achieved by the Trust. If such return is not achieved, monthly Distributions may be significantly reduced.**

The Trust will be subject to tax under Part I of the Tax Act on the amount of its income for tax purposes for the year, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amounts paid or payable to Unitholders in the year. Provided the Trust makes Distributions in each year of its net income and net realized capital gains, and provided the Trust deducts in computing its income the full amount available for deduction in each year, the Trust will not generally be liable for income tax under Part I of the Tax Act. In order to ensure this result, the Declaration of Trust provides that an Additional Distribution will, if necessary, be automatically payable in each year to Unitholders of record on December 31. The Additional Distribution may be necessary where the Trust realizes income for tax purposes which is in excess of the monthly Distributions paid or made payable to Unitholders during the year. In the event that the Trust does not have cash in an amount sufficient to pay the full amount of the Additional Distribution, such Additional Distribution may, at the option of the Trustee, be satisfied by the issuance of additional Trust Units having a value equal to the cash shortfall.

It is expected that monthly cash Distributions from the Trust will primarily be derived from distributions and interest income received on the Trust Investments and, in certain circumstances, from net realized capital gains from the disposition of Trust Investments, less estimated expenses and estimated taxes payable by the Trust, if any. It is expected that a portion of the Distributions to be paid by the Trust will not be taxable because of the character of distributions received by the Trust on the Trust Investments. A Unitholder will be required to reduce the adjusted cost base of the Unitholder's Trust Units by the amount of Distributions received from the Trust that are not taxable to the Unitholder (other than the non-taxable portion of capital gains).

Each Unitholder will be mailed annually, on or about March 31, the information necessary to enable such Unitholder to complete an income tax return with respect to amounts paid or payable by the Trust to the Unitholder in the preceding taxation year of the Trust. See "Canadian Federal Income Tax Considerations".

### **Distribution Reinvestment Plan**

The Trust will adopt, on or prior to the Closing, the Reinvestment Plan so that, subject to obtaining all necessary regulatory approvals, all Distributions shall be automatically reinvested on each Unitholder's behalf, at the election of each such Unitholder, pursuant to the Reinvestment Plan in accordance with the provisions of the Reinvestment Plan Agency Agreement. Notwithstanding the Reinvestment Plan, all Distributions to non-resident Unitholders will be paid in cash and will not be reinvested. **There is no guarantee that the Trust will receive the requisite regulatory approvals to effect reinvestment of Distributions or avoid resale restrictions in connection with the operation of the Reinvestment Plan. Such approvals may not be available, or may be conditional upon amendments being made to the Reinvestment Plan.** In the event that necessary regulatory approvals in respect of the Reinvestment Plan cannot be obtained, the Trust will, to the extent permitted under



applicable laws and stock exchange rules, use Distributions to acquire, through purchases in the market on behalf of each Unitholder that has elected to have his or her Distributions automatically reinvested, additional Trust Units.

Unless regulatory rulings are obtained, any Trust Units issued by the Trust during the Trust's first year of operation on the reinvestment of Distributions, as opposed to Trust Units purchased in the market during that period, will be subject to applicable resale restrictions in certain jurisdictions until the end of that year. Trust Units acquired in the market on the reinvestment of Distributions will not be subject to these resale restrictions, whether or not those rulings are obtained.

Distributions due to the Plan Participants shall be applied, on behalf of Plan Participants, to purchase additional Trust Units. Such purchases will either be made from the Trust or in the market. If the weighted average trading price on the TSE (or such other stock exchange on which the Trust Units are listed, if the Trust Units are no longer listed on the TSE) for the 20 trading days immediately preceding the relevant Distribution Date (the "Market Price") is less than the Net Asset Value per Trust Unit on the Distribution Date, the Plan Agent shall apply the Distributions either to purchase Trust Units in the market or from treasury as follows. Purchases in the market will be made by the Plan Agent on an orderly basis during the 20 trading day period following the Distribution Date and the price paid for those Trust Units will not exceed 115% of the Market Price of the Trust Units. On the expiry of that period, the unused part, if any, of the Distributions attributable to the Plan Participants will be used to purchase Trust Units from the Trust at the higher of (i) the Net Asset Value per Trust Unit on the relevant Distribution Date and (ii) 95% of the Market Price.

If the Market Price is equal to or greater than the Net Asset Value per Trust Unit on the Distribution Date, the Plan Agent shall apply the Distributions to purchase Trust Units from the Trust through the issue of new Trust Units at the higher of (i) the Net Asset Value per Trust Unit on the relevant Distribution Date and (ii) 95% of the Market Price on the relevant Distribution Date.

If the Trust Units are thinly traded, purchases in the market under the Reinvestment Plan may significantly affect the market price. Depending on market conditions, direct reinvestment of cash Distributions by Unitholders in the market may be more, or less, advantageous than the reinvestment arrangements under the Reinvestment Plan. The Trust Units purchased in the market or from the Trust will be allocated on a *pro rata* basis to the Plan Participants. The Plan Agent will furnish to each Plan Participant a report of the Trust Units purchased for the Plan Participant's account in respect of each Distribution and the cumulative total purchased for that account. The Plan Agent's charges for administering the Reinvestment Plan and all brokerage fees and commissions in connection with purchases in the market pursuant to the Reinvestment Plan will be paid by the Trust. **The automatic reinvestment of Distributions under the Reinvestment Plan will not relieve participants of any income tax applicable to those distributions.** See "Canadian Federal Income Tax Considerations".

The Reinvestment Plan will also allow Plan Participants, to the extent permitted under applicable law and regulatory rulings obtained, to make cash payments ("Optional Cash Payments") which will be invested in Trust Units by the Plan Agent. Any Plan Participant may invest a minimum of \$100 per Optional Cash Payment with a maximum \$20,000 per calendar year per Plan Participant. Optional Cash Payments will be invested on the same basis as Distributions. Optional Cash Payments must be received by the Plan Agent at least five Business Days prior to a Distribution Date to be used to purchase Trust Units immediately following such Distribution Date. Optional Cash Payments received less than five Business Days prior to a Distribution Date will be held by the Plan Agent and will not be used by the Plan Agent to purchase Trust Units until the next Distribution Date. A Plan Participant who wishes to make an Optional Cash Payment must ensure that the CDS Participant through which he holds his Trust Units is provided with the notice of his or her intention to make such Optional Cash Payment and the funds to make such Optional Cash Payment sufficiently in advance of the Distribution Date so as to permit the CDS Participant to deliver a notice and the funds to CDS by 5:00 p.m. (Toronto time) on the day which is five Business Days prior to the Distribution Date. The aggregate number of Trust Units that may be purchased with Optional Cash Payments in a calendar year may not exceed two percent of the outstanding Trust Units at the commencement of such calendar year, except for the 2002 calendar year in respect of which the number of Trust Units purchased with Optional Cash Payments may not exceed two percent of the outstanding Trust Units immediately following the closing of the Offering.

A Unitholder may, after electing to participate in the Reinvestment Plan, terminate his participation in the Reinvestment Plan by written notice to the CDS Participant through which he holds his Trust Units which will then appropriately instruct the Plan Agent. That notice, if actually received no later than five days prior to a Record Date, will have effect for the distribution to be made on the following Distribution Date. Thereafter, Distributions to those Unitholders will be by cheque. The Manager may terminate the Reinvestment Plan in its sole discretion on not less than 30 days notice to the Plan Participants. The Manager may also amend, modify or suspend the Reinvestment Plan at any time in its sole discretion, provided that it gives notice of that amendment, modification or suspension to Unitholders. The Trust is not required to issue Trust Units into any jurisdiction where that issuance would be illegal.

### **REDEMPTION OF TRUST UNITS**

Trust Units may be surrendered for redemption at any time during December of any year, but at least five Business Days prior to December 31. However, redemption will only occur on December 31 (the “Redemption Date”) of each year. Unitholders whose Trust Units are redeemed will be entitled to receive a redemption price per Trust Unit equal to the Net Asset Value per Trust Unit determined as of the Redemption Date and will receive payment on or before the twentieth Business Day following such Redemption Date (the “Redemption Payment Date”). Any unpaid Distribution payable on or before the Redemption Date in respect of Trust Units tendered for redemption will also be paid on the Redemption Payment Date.

A Unitholder who desires to exercise redemption privileges must do so by causing the CDS Participant through which he holds his Trust Units to deliver to CDS at its office in the City of Toronto on behalf of the Unitholder, a written notice of the Unitholder’s intention to redeem Units by no later than 5:00 p.m. on a Redemption Date. A Unitholder who desires to redeem Trust Units should ensure that the CDS Participant is provided with notice of his or her intention to exercise his or her redemption right sufficiently in advance of the Redemption Date deadline so as to permit the CDS Participant to deliver a notice to CDS by 5:00 p.m. on the day which is five Business Days prior to the Redemption Date.

By causing a CDS Participant to deliver to CDS a notice of the Unitholder’s intention to redeem Trust Units, the Unitholder shall be deemed to have irrevocably surrendered his or her Trust Units for redemption and appointed such CDS Participant to act as his or her exclusive settlement agent with respect to the exercise of such redemption privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

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

The Manager may direct the Trustee to suspend the redemption of Trust Units or payment of redemption proceeds (a) for the whole or any part of a period during which normal trading is suspended on one or more stock exchanges, options exchanges or futures exchanges on which more than 50% of the Trust Investments (by value) are listed and traded; or (b) for any period not exceeding 120 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Trust or which impair the ability of the Manager to determine the value of the assets of the Trust. The suspension may apply to all requests for redemption received prior to the suspension, but as for which payment has not been made, as well as to all requests received while the suspension is in effect. All Unitholders shall have and shall be advised that they have the right to withdraw their requests for redemption. The suspension shall terminate in any event on the first Business 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 Trust, any declaration of suspension made by the Manager shall be conclusive.

## DETAILS OF THE OFFERING

The Offering consists of a minimum of 4,000,000 Trust Units and a maximum of 15,000,000 Trust Units at a price of \$10.00 per Trust Unit. The minimum purchase per subscriber is 200 Trust Units. Additional subscriptions may be made in multiples of single Trust Units.

### The Trust Units

The Trust is authorized to issue an unlimited number of transferable, redeemable units of beneficial interest, each of which represents an equal, undivided interest in the net assets of the Trust. Fractions of Trust Units may be issued which will have the same rights, restrictions, conditions and limitations attaching to whole Trust Units in the proportion which they bear to a whole Trust Unit, except that fractional Trust Units will not have the right to vote. Trust Units are freely transferable, except as provided under “Declaration of Trust – Non-Resident Unitholders” or as otherwise restricted by the Trustee in order to comply with any applicable laws, regulations or other requirements imposed by regulatory authorities or to obtain, maintain or renew any licenses, rights, status or powers pursuant to any applicable laws, regulations or other requirements imposed by any stock exchange or other applicable regulatory authorities.

Each Trust Unit entitles the holder to the same rights and obligations as a holder of any other Trust Unit and no holder of Trust Units is entitled to any privilege, priority or preference in relation to any other holder of Trust Units. Each holder of Trust Units is entitled to one vote for each Trust Unit held and is entitled to participate equally with respect to any and all distributions made by the Trust, including distributions of net income and net realized capital gains, if any. On termination or liquidation of the Trust, the holders of outstanding Trust Units of record are entitled to receive on a *pro rata* basis all of the assets of the Trust remaining after payment of all debts, liabilities and liquidation expenses of the Trust. See “Declaration of Trust – Description of Trust Units” and “– Termination of the Trust”.

### Delivery Form and Denomination

Registration of interests in and transfers of the Trust Units will be made only through the Book-Entry Only System. On or about the Closing Date, the Trustee will deliver to CDS a certificate representing the aggregate number of Trust Units subscribed for under the Offering. Trust Units must be purchased, transferred and surrendered for redemption through a CDS Participant. All rights of Unitholders must be exercised through, and all payments or other property to which such Unitholders are entitled will be made or delivered by CDS or the CDS Participant through which the Unitholder holds such Trust Units. Upon purchase of any Trust Units, the Unitholders will receive only a customer confirmation from the registered dealer which is a CDS Participant and from or through which the Trust Units are purchased. References in this prospectus to a Unitholder means, unless the context otherwise requires, the owner of the beneficial interest in such Trust Units.

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

The Trust has the option to terminate registration of the Units through the Book-Entry Only System in which case, certificates for the Units in fully registered form would be issued to beneficial owners of such Trust Units or their nominees.

## PLAN OF DISTRIBUTION

Pursuant to the Agency Agreement, the Agents have agreed to act as, and have been appointed as, the sole and exclusive agents of the Trust to offer the Trust Units for sale to the public, on a best efforts basis, if, as and when issued by the Trust. The Trust Units will be issued at a price of \$10.00 per Trust Unit with a minimum purchase of 200 Units. Additional subscriptions above the minimum subscription may be made in multiples of single Trust Units. In consideration for their services in connection with this Offering, the Agents will be paid a fee of \$0.55 per Trust Unit sold under the Offering and will be reimbursed for reasonable out of pocket expenses incurred by them. The Agents’ fees and expenses will be paid by the Trust out of the proceeds of the Offering. The Agents may form a sub-agency group including other qualified investment dealers and limited market

dealers and determine the fee payable to the members of such group, which fee will be paid by the Agents out of their fees. While the Agents have agreed to use their best efforts to sell the Trust Units offered hereby, the Agents will not be obligated to purchase any Trust Units which are not sold.

Brompton Securities Limited, one of the Agents, is registered as a limited market dealer with the Ontario Securities Commission. Accordingly, Brompton Securities Limited may only make sales pursuant to the Offering for which the exemptions from the registration requirement are not available to it as a market intermediary by virtue of Subsection 206(1) of the Regulation made under the *Securities Act* (Ontario) or Section 3.4 of Ontario Securities Commission Rule 45-501.

The Trust has granted to the Agents the Over-Allotment Option, which is exercisable for a period of 30 days from the Closing and gives the Agents the right to purchase additional Trust Units in an amount equal to 15% of the aggregate number of Trust Units sold on the closing of the Offering on the same terms as set forth above. To the extent that the Over-Allotment Option is exercised, the additional Trust Units will be offered at the Offering Price hereunder and the Agents will be paid a fee of \$0.55 per Trust Unit in respect of Trust Units purchased pursuant to the exercise of the Over-Allotment Option. This prospectus qualifies the distribution of Trust Units issuable upon the exercise of the Over-Allotment Option.

Subscription amounts received in trust will be held in segregated accounts with a depository who is a registered dealer, bank or trust company until the minimum amount of the Offering has been obtained. If subscriptions for a minimum of 4,000,000 Trust Units (or \$40,000,000) have not been received by April 1, 2002, such offering may not continue without the consent of the securities regulatory authorities and those who have subscribed for Trust Units on or before such date. The maximum number of Trust Units which will be sold pursuant to the Offering is 15,000,000 Trust Units or \$150,000,000. 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 and withdraw all subscriptions for Trust Units on behalf of subscribers. In the event the minimum Offering is not achieved and the necessary consents are not obtained or, if the closing of the Offering does not occur for any reason, subscription proceeds received from prospective purchasers in respect of the Offering will be returned to such purchasers promptly without interest or deduction. Subscriptions for Trust Units will be received subject to rejection or allotment in whole or in part. The right is reserved to close the subscriptions books at any time without notice. Closing will take place on or about February 19, 2002 or such later date as the Trust and the Agents may agree, but in any event not later than April 1, 2002.

There is currently no market through which the Trust Units can be sold. Accordingly, the Offering Price for the Trust Units was determined by negotiation between the Agents and the Manager on behalf of the Trust.

Pursuant to policy statements of the Ontario Securities Commission and the Commission des valeurs mobilières du Québec, the Agents may not, throughout the period of distribution under this prospectus, bid for or purchase Trust Units. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Trust Units. These exceptions include a bid or purchase permitted under the by-laws and rules of TSE relating to market stabilization and passive market-making activities and a bid or purchase made for or on behalf of a customer where the order was not solicited during the period of distribution. Subject to the foregoing and applicable laws, the Agents may, in connection with this Offering, over-allot. Such transactions, if commenced, may be discontinued at any time.

The Trust is not a trust company and does not carry on business as a trust company and, accordingly, the Trust is not registered under the trust company legislation of any jurisdiction. The Trust is a closed-end investment trust established under the laws of Ontario which will offer and sell the Trust Units to the public. The Trust Units are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that Act or any other legislation.

Pursuant to the Agency Agreement, the Trust and the Manager have agreed to indemnify the Agents and their controlling persons, directors, officers and employees against certain liabilities.

Brompton Securities Limited, one of the Agents, is an associate of Brompton Limited, an affiliate of Brompton VIP Management Limited, the Manager of the Trust. In addition, Brompton VIP Management

Limited is the holder of the only issued and outstanding Trust Unit (which Trust Unit will be purchased for cancellation by the Trust immediately following the Closing). Accordingly, the Trust may be considered to be a “connected issuer” and “related issuer” to Brompton Securities Limited. The Trust is in discussions with the Canadian chartered bank affiliate (the “Affiliated Bank”) of one of the Agents, Scotia Capital Inc., regarding the establishment of the Loan Facility. There is no assurance that the Affiliated Bank will provide the Loan Facility to the Trust. The Trust expects that the terms, conditions, interest rates, fees and expenses of and under the Loan Facility will be typical for loans of this nature. The Trust anticipates that the Affiliated Bank will require the Trust to provide a security interest in some or all of its assets in favour of the Affiliated Bank to secure borrowings under the Loan Facility. See “Loan Facility”. Accordingly, the Trust may be considered to be a “connected issuer” to Scotia Capital Inc. The decision to take the initiative in organizing the business and affairs of the Trust and to distribute the Trust Units offered hereby and the determination of the terms of the Offering were made through arms’ length negotiations between Brompton VIP Management Limited and Raymond James Ltd., an independent Agent, as lead Agent. Raymond James Ltd. was also principally responsible for the due diligence activities performed by the Agents in connection with the Offering.

As a consequence of the Offering, Brompton Securities Limited and Scotia Capital will receive their respective shares of the Agents’ fees. In addition, the Manager will be entitled to receive the Management Fee pursuant to the Management Agreement which was negotiated on an arm’s length basis between the Manager and Raymond James Ltd., as lead agent.

The Trust has agreed with the Agents not to, directly or indirectly, sell, issue, offer to sell or issue any of its Trust Units or other securities (or announce publicly its intention to do so) for a period of 180 days following the Closing Date, except pursuant to the Distribution Reinvestment Plan, without the consent of Raymond James Ltd. The affiliate of the Manager who will subscribe for a minimum of 250,000 Trust Units pursuant to the Offering has also agreed with the Agents not to, directly or indirectly, sell, offer to sell, contract to sell, make a short sale, assign, trade, lend or otherwise dispose of or transfer any of its Trust Units that are purchased on the Closing for a period of 90 days following the Closing Date, without the consent of Raymond James Ltd.

## CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Goodman and Carr, LLP, counsel to the Trust, and Borden Ladner Gervais LLP, counsel to the Agents, the following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations under the Tax Act generally applicable to a person who is an individual (other than a trust), who acquires Trust Units pursuant to the Offering and who, for the purposes of the Tax Act, is resident in Canada, deals at arm's length with the Trust and the Agents and holds the Trust Units as capital property.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder (the "Regulations"), all specific proposals to amend the Tax Act and the Regulations publicly announced by or on behalf of the Minister of Finance prior to the date hereof (the "Proposed Amendments"), and counsels' understanding of the current administrative practices of the Canada Customs and Revenue Agency. This summary assumes that the Proposed Amendments will be enacted as proposed. Except for the Proposed Amendments, this summary does not take into account or anticipate any changes in the law, whether by way of legislative, governmental or judicial decision or action, nor does it take into account provincial or foreign tax legislation or considerations.

This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Trust Units. Moreover, the income and other tax consequences of acquiring, holding or disposing of Trust Units will vary according to the status of the investor, the province or provinces in which the investor resides or carries on business and, generally, the investor's own particular circumstances. Accordingly, the following description of income tax matters is of a general nature only and is not intended to constitute advice to any particular investor. The income tax consequences described in this summary are based on the assumptions that an investor does not undertake or arrange any transaction relating to the investor's Trust Units, other than those referred to in this prospectus, and that none of the transactions relating to the investor's Trust Units, and referred to in this prospectus, is undertaken or arranged primarily to obtain a tax benefit other than those specifically described herein. **Prospective investors should consult their own tax advisors with respect to the income tax consequences of investing in Trust Units, based upon the investor's particular circumstances.**

This summary is based on the assumption that the Trust will qualify at all times as a "unit trust" and a "mutual fund trust" within the meaning of the Tax Act. In order to so qualify, the Trust must comply on a continuous basis with certain investment criteria referred to under "Investment Objectives, Strategy and Restrictions – Investment Strategy" and certain minimum distribution requirements relating to the Trust Units. In addition, the Trust may not reasonably at any time be considered to be established or maintained primarily for the benefit of non-resident persons. The Manager has advised counsel that the Trust intends to make an election so that it will qualify under the Tax Act as a mutual fund trust from the commencement of its first taxation year. In the event the Trust were not to qualify as a mutual fund trust at all times, the income tax consequences described below would in some respects be materially different.

This summary is also based on the assumption that none of the issuers of the securities comprising the Trust Investments will be foreign affiliates of the Trust or of any Unitholder and that none of the securities comprising the Trust Investments will be tracked interests or participating interests, other than exempt interests, in foreign investment entities under the proposals to amend the Tax Act released August 2, 2001 (or such proposals as amended or enacted or successor provisions thereto).

### **Taxation of the Trust**

The Trust will be subject to tax under Part I of the Tax Act on the amount of its income for the year, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amounts paid or payable to Unitholders in the year. Provided the Trust makes distributions in each year of its net income and net realized capital gains, as described under "Distributions and Reinvestment", and provided the Trust deducts in computing its income the full amount available for deduction in each year, the Trust will not generally be liable for income tax under Part I of the Tax Act.

With respect to an issuer that is a trust whose securities are included in the Trust Investments, the Trust will be required to include in the calculation of its income such portion of the net income and the taxable portion of net realized capital gains of such issuer as is paid or becomes payable to the Trust in the year, notwithstanding

that certain of such amounts may be reinvested in additional Trust Investments of the issuer. Provided appropriate designations are made by the issuer, any net taxable capital gains realized by the issuer and taxable dividends received by the issuer from taxable Canadian corporations that are paid or become payable to the Trust and are designated by the issuer will effectively retain their character as such in the hands of the Trust. In addition, the Trust will be required to include in the calculation of its income any amount designated under subsection 104(29) of the Tax Act by such issuer in respect of certain Crown royalties and charges in excess of the resource allowance deductible in computing the issuer's income. The Manager has advised counsel that any such deemed income will be made payable by the Trust to Unitholders. The Trust will generally be required to reduce the adjusted cost base of the Trust Investment of such issuer to the extent that all amounts paid or payable in a year by the issuer to the Trust exceed the amounts included in the income of the Trust for the year plus the Trust's share of the non-taxable portion of capital gains of such issuer for the year. To the extent that the adjusted cost base to the Trust of the Trust Investment of such an issuer is negative, the amount by which it is negative will be deemed to be a capital gain realized by the Trust and the Trust's adjusted cost base of such Trust Investment will be increased by the amount of such deemed capital gain.

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

The Trust will also be required to include in its income for each taxation year, all interest that accrues to it to the end of the year, or becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing its income for a preceding taxation year.

In computing its income for tax purposes, the Trust may deduct reasonable administrative, interest and other expenses incurred to earn income and may deduct over a five-year period the costs and expenses of this Offering paid by the Trust and not reimbursed.

The Trust Investments may include securities which are not denominated in Canadian dollars. The cost and proceeds of disposition of securities, dividends, interest and all other amounts will be determined for the purposes of the Tax Act in Canadian dollars at the exchange rate prevailing at the time of the transaction. The Trust may realize gains or losses by virtue of the fluctuation in the value of foreign currencies relative to Canadian dollars.

The Trust may derive income or gains from investments in countries other than Canada and, as a result, may be liable to pay income or profits tax to such countries. To the extent that such foreign tax paid does not exceed 15% of such amount and has not been deducted in computing the Trust's income, the Trust may designate a portion of its foreign source income in respect of a Unitholder so that such income and a portion of the foreign tax paid by the Trust may be regarded as foreign source income of, and foreign tax paid by, the Unitholder for the purposes of the foreign tax credit provisions of the Tax Act. If such foreign tax paid by the Trust exceeds 15% of the amount included in the Trust's income from such investments, such excess may generally be deducted by the Trust in computing its income for purposes of the Tax Act.

Upon the actual or deemed disposition of a Trust Investment held by the Trust, the Trust will realize a capital gain (or capital loss) to the extent that the proceeds of disposition exceed (or are exceeded by) the adjusted cost base of such Trust Investment and any reasonable costs of disposition, provided such Trust Investment is capital property to the Trust. The Manager has advised counsel that the Trust intends to make an election under subsection 39(4) of the Tax Act so that all Trust Investments that are Canadian securities will be deemed to be capital property.

The Manager has advised counsel that the Trust will apply to be registered as a registered investment under the Tax Act effective from the date of its creation. As a registered investment, the Trust will be liable for tax under Part XI of the Tax Act if it invests in foreign property in excess of the limits provided in Part XI of the Tax Act or if it invests in certain options to acquire shares. The Manager has advised counsel that the Trust will restrict its investments in foreign property and options such that the Trust will not be liable for tax under Part XI of the Tax Act.

### **Taxation of Unitholders**

A Unitholder will generally be required to include in computing income for a particular taxation year of the Unitholder such portion of the net income, and the taxable portion of the net realized capital gains, of the Trust for a taxation year as is paid or becomes payable to the Unitholder in that particular taxation year, whether received in cash or reinvested in additional Trust Units. Provided that appropriate designations are made by the Trust, such portion of (a) the net realized taxable capital gains of the Trust, (b) the foreign source income of the Trust and foreign taxes eligible for the foreign tax credit and (c) the taxable dividends received by the Trust on shares of taxable Canadian corporations as is paid or becomes payable to a Unitholder will effectively retain its character and be treated as such in the hands of the Unitholder. To the extent that amounts are designated as taxable dividends from taxable Canadian corporations, the normal gross-up and dividend tax credit rules will apply. Any loss of the Trust for purposes of the Tax Act cannot be allocated to, and cannot be treated as a loss of the Unitholders. The non-taxable portion of net realized capital gains of the Trust that are paid or become payable to a Unitholder in a year will not be included in computing the Unitholder's income for the year. Any amount in excess of a Unitholder's share of the net income and the net realized capital gains of the Trust for a taxation year that is paid or becomes payable to the Unitholder in such year will not generally be included in computing the Unitholder's income for the year. However, the payment by the Trust of such excess amount will reduce the adjusted cost base of Trust Units to the Unitholder. To the extent that the adjusted cost base of a Trust Unit would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Unitholder from the disposition of the Trust Unit and the Unitholder's adjusted cost base will be increased by the amount of such deemed capital gain.

The Net Asset Value per Trust Unit will reflect any income and gains of the Trust that have accrued or been realized but have not been made payable at the time Trust Units are acquired. A Unitholder who acquires additional Trust Units, including on the reinvestment of distributions, may become taxable on the Unitholder's share of such income and gains of the Trust.

Any additional Trust Units acquired by a Unitholder on a reinvestment of distributions from the Trust will have an initial cost to the Unitholder equal to the amount of the distributions so reinvested. The cost of such Trust Units will be averaged with the adjusted cost base of all other Trust Units then held by the Unitholder as capital property to determine the adjusted cost base of each Trust Unit held by the Unitholder.

Upon the disposition or deemed disposition by a Unitholder of a Trust Unit, whether on a sale, redemption, repurchase or otherwise, a capital gain (or capital loss) will be realized by the Unitholder to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Trust Unit to the Unitholder immediately before the disposition.

One-half of any capital gain (a "taxable capital gain") realized by a Unitholder in a taxation year must be included in computing the income of the Unitholder for that year and one-half of any capital loss (an "allowable capital loss") realized by a Unitholder in a taxation year may be deducted from taxable capital gains realized by the Unitholder in that year. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year, against taxable capital gains realized in such year, to the extent and under the circumstances provided for in the Tax Act. Capital gains realized on the disposition of Trust Units or amounts designated by the Trust to a Unitholder as taxable capital gains may give rise to a liability for alternative minimum tax.



## **RISK FACTORS**

There are many risks associated with an investment in the Trust Units some of which are outlined below. Investors should consider the following risk factors before subscribing for Trust Units.

### **No Assurance in Achieving Investment Objectives**

There is no assurance that the Trust will be able to achieve its Investment Objectives of preserving the value of the Trust's assets and providing monthly Distributions to Unitholders in a tax efficient manner that meet the targeted yield of approximately 0.8125% per month or 9.75% per annum based on the Offering Price of the Trust Units.

There is no assurance that the Trust will be able to pay monthly Distributions in the short or long term, nor is there any assurance that the Net Asset Value of the Trust will be preserved.

Changes in the relative weightings between the various types of investment vehicles making up the Trust Investments can affect the overall yield to Unitholders. The Distributions received by the Trust from issuers whose securities are held as Trust Investments may vary from month to month and certain of these issuers may pay distributions less frequently than monthly, with the result that the monthly cash available for distribution to Unitholders could vary substantially.

### **Performance and Marketability of Trust Investments and Trading at a Discount**

The Net Asset Value per Trust Unit will vary in accordance with the value of the securities acquired by the Trust and in some cases the value of Trust Investments owned by the Trust may be affected by factors beyond the control of the Advisor, the Manager or the Trust. There is no assurance that an adequate market will exist for Trust Investments acquired by the Trust. Trust Investments issued by issuers who are not reporting issuers in all provinces may be subject to an indefinite hold period under certain provincial securities legislation. In some circumstances, the issuers of Trust Investments which the Trust may acquire have limited operating histories. The value of these Trust Investments will be influenced by factors which are not within the control of the Trust, which, in the case of resource-oriented Income Funds, include the financial performance of the respective issuers, commodity prices, environmental risks, exchange rates, interest rates, issues relating to the regulation of the natural resource industry, quantity and quality of assets, operational risks relating to the specific business activities of the respective issuers and to the resource sector as a whole and other financial market conditions. In the case of REITs, such factors include the quality of the REIT's property portfolio, the perception of and the abilities of the REIT's advisor, the prospects for the Canadian and U.S. residential and commercial real estate markets and the economy in general, including the level and likely direction of interest rates. In the case of Other Income Funds, such factors include the success of the business of the underlying company and the economy in general. The Trust cannot predict whether the Trust Investments held by it will trade at a discount to, a premium to, or at their respective net asset values.

### **High Yield Debt**

The Trust intends to invest in High Yield Debt which involves greater risk than investment grade debt, including risks of default on interest and principal and price changes due to such factors as general economic conditions and the issuer's creditworthiness. There are no formal exchanges on which such High Yield Debt trades. Accordingly, there may be limited liquidity for holders of such debt.

### **Sensitivity to Interest Rates**

As the Trust is targeting monthly distributions commencing in the third month following the month in which Closing occurs of \$0.08125 per Trust Unit or 9.75% per annum based on the original Offering Price of the Trust Units, the market price of the Trust Units may be affected by the level of interest rates prevailing from time to time. In addition, the Net Asset Value per Trust Unit may be highly sensitive to interest rate fluctuations because the value of the Trust Investments will fluctuate based on interest rates. Further, any decrease in the Net Asset Value per Trust Unit resulting from an increase in interest rates may also negatively affect the market price of the Trust Units. Unitholders who wish to redeem or sell their Trust Units will, therefore, be exposed to the risk

that the Net Asset Value per Trust Unit or the market price of the Trust Units will be negatively affected by interest rate fluctuations. Increases in interest rates will also increase the Trust's costs of borrowing.

### **Commodity Price Fluctuations**

The operations and financial condition of resource-based issuers of Trust Investments and, accordingly, the amount of distributions paid on such Trust Investments will be dependent on commodity prices applicable to such issuers. Prices for commodities may vary and are determined by supply and demand factors including weather and general economic and political conditions.

A decline in commodity prices could have an adverse effect on the operations and financial condition of resource-based issuers of Trust Investments and the amount of distributions paid on such Trust Investments. In addition, certain commodity prices are based on a U.S. dollar market price. Accordingly, an increase in the value of the Canadian dollar against the U.S. dollar could reduce the amount of distributions paid on such Trust Investments.

### **Fluctuations in Net Asset Value**

The Net Asset Value per Trust Unit and the funds available for Distributions will vary according to, among other things, the value of the Trust Investments acquired by the Trust and the distributions paid and interest earned thereon. Fluctuations in the market value of the Trust Investments in which the Trust invests may occur for a number of reasons beyond the control of the Manager or the Trust. Overweighting investments in certain sectors or industries involves risk that the Trust will suffer a loss because of general advances or declines in the prices of securities in those sectors or industries.

### **Composition of Trust Investments**

The composition of the Trust Investments taken as a whole may vary widely from time to time and may be concentrated by type of security, commodity, industry or geography, resulting in the Trust Investments being less diversified than anticipated.

### **Reliance on the Advisor and Manager**

The Trust will be dependent on the Advisor for investment advisory and portfolio management services under the Advisory Agreement. In addition, while certain directors of the Manager have experience in managing closed-end investment trusts, and have knowledge of, and experience in, analyzing certain Trust Investments, the Manager is an entity that was organized for the sole purpose of managing and administering the Trust, has no prior operating history and, accordingly, no prior experience in providing services as a manager for a public closed-end investment trust. Investors who are not willing to rely on the Advisor or the management of the Manager should not invest in Trust Units.

### **Leverage**

The Trust will incur indebtedness for various purposes, including purchasing Trust Investments in accordance with the Investment Objectives and Investment Strategy and subject to the Investment Restrictions, effecting market purchases of Trust Units, maintaining liquidity and funding redemptions and paying Distributions. Other than borrowings by the Trust under the Loan Facility of up to 25% of the Total Assets (including securities purchased with the amount borrowed), determined at the time of borrowing, and short-term credits necessary for settlement of securities transactions, which are not considered borrowing, the Trust will not engage in borrowing. The Trust anticipates that the Lender will require the Trust to provide a security interest in some or all of its assets in favour of the Lender to secure such borrowings. There can be no assurance that such a strategy will enhance returns and, in fact, the strategy may reduce returns (both distributions and capital) and thereby increase the risk to Unitholders. If the Trust Investments suffer a decrease in value, the leverage component will cause a decrease in Net Asset Value in excess of that which would otherwise be experienced. In the worst case scenario, if the Loan Facility is called by the Lender, the Trust may be required to liquidate Trust Investments to repay the indebtedness at a time when the market for the Trust Investments may be depressed, thereby forcing the Trust to incur losses.

## **Illiquid Securities**

If the Advisor is unable, or determines that it is inappropriate, to dispose of some or all of the Trust Investments prior to the Termination Date, Unitholders may, subject to applicable laws, receive distributions of securities in specie upon the termination of the Trust, for which there may be an illiquid market or which may be subject to resale restrictions of indefinite duration. In addition, if the Advisor determines that it is appropriate to acquire certain securities for the Trust, the Advisor may be unable to acquire the number of such securities, or to acquire such securities at a price acceptable to the Advisor, if the market for such securities is particularly illiquid.

## **Instalment Receipts**

The Trust may purchase certain Trust Investments as instalment receipts representing ownership interests in trust units, the original issue price of which is payable on an instalment basis. The Trust may be required to pay subsequent instalments despite a decline in the value of the Trust Investment of an issuer in which the Trust invests.

## **Taxation of the Trust**

While the Trust has been structured so that the Trust will generally not be liable to pay income tax, the information available to the Trust and the Manager relating to the characterization, for tax purposes, of the distributions received by the Trust in any year from issuers of Trust Investments may be insufficient as at December 31 of that year to ensure that the Trust will make sufficient distributions in order that it will not be liable to pay income tax in respect of that year.

## **Interest Rate Hedging**

Interest rate hedges will be used by the Trust only to the extent that the Advisor considers appropriate and as described above under “Investment Objectives and Strategy – Use of Derivative Instruments”. The use of interest rate hedges involves special risks, including the possible default by the other party to the transaction, illiquidity and, to the extent the Advisor’s assessment of certain market movements is incorrect, the risk that the use of interest rate hedges could result in losses greater than if the hedging had not been used.

## **Loss of Investment**

An investment in the Trust is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment and who can withstand the effect of the targeted return not being met in any period.

## **Status of the Trust**

As the Trust is not a mutual fund as defined under Canadian securities laws, the Trust is not subject to the Canadian policies and regulations that apply to open-end mutual funds.

## **Liability of Unitholders**

The Trust is a unit trust and as such its Unitholders do not receive the protection of statutorily mandated limited liability as in the case of shareholders of most Canadian corporations. There is no guarantee, therefore, that Unitholders could not be made party to legal action in connection with the Trust. However, the Declaration of Trust provides that no Unitholder, in its capacity as such, will be subject to any liability whatsoever, in tort, contract or otherwise, to any person in connection with the Trust’s property or the obligations or the affairs of the Trust and all such persons are to look solely to the Trust’s property for satisfaction of claims of any nature arising out of or in connection therewith and only the Trust’s property will be subject to levy or execution. Pursuant to the Declaration of Trust, the Trust will indemnify and hold harmless each Unitholder from any costs, damages, liabilities, expenses, charges and losses suffered by a Unitholder resulting from or arising out of such Unitholder not having limited liability.

The Declaration of Trust provides that the Trustee and the Manager shall use reasonable means to cause to be inserted in each written agreement, undertaking and obligation signed by or on behalf of the Trust a provision

to the effect that such agreement, undertaking or obligation will not be binding upon Unitholders personally. The Loan Facility and any other documents relating to the borrowing of money by the Trust must contain such a provision.

As a result of the foregoing, it is considered that the risk of any personal liability of Unitholders is minimal in view of the nature of its activities and the requirement of the Trust that any agreement which is related to the borrowing of money include an express disavowal of liability of Unitholders. In the event that a Unitholder should be required to satisfy any obligation of the Trust, such Unitholder will be entitled to reimbursement from any available assets of the Trust.

It is intended that the Trust's operations be conducted in such a way as to minimize any such risk and, in particular, where practical, to cause every written contract or commitment of the Trust to contain an express disavowal of liability of Unitholders.

### **Securities Lending**

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

### **Conflicts of Interest**

The Advisor and its directors and officers engage in, and the Manager and its directors and officers and their respective affiliates and associates may engage in, the promotion, management or investment management of one or more funds or trusts which invest primarily in High Income Investments.

Although none of the directors or officers of the Manager will devote his or her full time to the business and affairs of the Trust or the Manager, each will devote as much time as is necessary to supervise the management of (in the case of the directors) or to manage the business and affairs of (in the case of officers) the Manager and the Trust.

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

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

### **Use of Derivatives**

The Trust may invest in and use derivative instruments for hedging purposes to the extent, if any, considered appropriate by the Advisor, taking into account factors including transaction costs. There can be no assurance that the Trust's hedging strategies will be effective.

The Trust is subject to the credit risk that its counterparty (whether a clearing corporation in the case of exchange-traded instruments or another third party in the case of over-the-counter instruments) may be unable to meet its obligations. In addition, there is a risk of loss by the Trust of margin deposits in the event of the bankruptcy of the dealer with whom the Trust has an open position in an option or futures or forward contract. Derivative instruments traded in foreign markets may offer less liquidity and greater credit risk than comparable instruments traded in North American markets. The ability of the Trust to close out its positions may also be affected by exchange imposed daily trading limits on options and futures contracts. If the Trust is unable to close out a position, it will be unable to realize its profit or limit its losses until such time as the option becomes exercisable or expires or the futures or forward contract terminates, as the case may be. The inability to close out options, futures and forward positions could also have an adverse impact on the Trust's ability to use derivative instruments to effectively hedge its portfolio or implement its Investment Strategy.

## **Changes in Legislation**

There can be no assurance that income tax laws and government incentive programs relating to the natural resource or real estate industries and the treatment of mutual fund trusts under the Tax Act will not be changed in a manner which adversely affects the distributions received by the Trust or by the Unitholders.

## **Foreign Currency Exposure**

As a portion of the Trust Investments may be comprised of securities denominated in U.S. dollars or other foreign currencies or securities whose value may be linked, in part, with the value of the U.S. dollar or other foreign currencies, the Net Asset Value per Trust Unit and the value of distributions received by the Trust will, when measured in Canadian dollars, be affected by fluctuations in the value of the U.S. dollar or other foreign currencies relative to the Canadian dollar.

## **CONFLICTS OF INTEREST**

The Declaration of Trust acknowledges that the Trustee may provide services to the Trust in other capacities, provided that the terms of any such arrangements are no less favourable to the Trust than those which would be obtained from parties which are at arm's length for comparable services.

In addition, the directors and officers of the Manager may be directors, officers, shareholders or unitholders of one or more issuers from which the Trust may acquire securities. The Manager or its affiliates may be managers of one or more issuers from which the Trust may acquire securities and may be managers of funds that invest in the same securities as the Trust.

Brompton Securities Limited, one of the Agents, is an associate of Brompton Limited, an affiliate of Brompton VIP Management Limited, the Manager of the Trust. In addition, certain directors and officers of Brompton Securities Limited are also directors and officers of the Manager. Brompton Securities Limited will receive fees pursuant to the Agency Agreement.

Brompton Securities Limited may, from time to time, receive fees in connection with the buying or selling of Trust Investments, provided that such fees shall not be on terms that are less favourable to the Trust than those which would be obtained from parties which are at arms length for comparable services.

The services of the Advisor are not exclusive to the Trust. The Advisor acts as the investment advisor to other funds and may in the future act as the investment advisor to other funds which invest primarily in High Income Investments and which are considered competitors of the Trust. Since the Advisor will continue to manage the investments of its other clients, the Advisor may acquire or dispose of the same investment for the Trust and one or more of its other clients. However, because of different investment policies, the Advisor may be selling an investment for one client and buying the same investment for another client. Under the Advisory Agreement, the Advisor has agreed to allocate opportunities to acquire and dispose of investments fairly among the Trust and its other clients that have similar investment objectives. See "The Advisor and the Advisory Agreement – The Advisory Agreement".

## **THE TRUSTEE**

Computershare Trust Company of Canada is the Trustee of the Trust. The Trustee is responsible for certain aspects of the administration of the Trust as described in the Declaration of Trust.

The Trustee or any successor Trustee may resign upon 90 days' written notice to the Manager or may be removed by an Extraordinary Resolution passed at a meeting of Unitholders called for such purpose. Any such resignation or removal shall become effective only on the appointment of a successor Trustee. If, after notice of resignation has been received from the Trustee, no successor has been appointed within 90 days of such notice, the Trustee, the Manager or any Unitholder may apply to a court of competent jurisdiction for the appointment of a successor Trustee.

The Declaration of Trust provides that the Trustee will not be liable in carrying out its duties under the Declaration of Trust except in cases where the Trustee fails to act honestly and in good faith with a view to the best interests of the Unitholders or to exercise the degree of care, diligence and skill that a reasonably prudent

Trustee would exercise in comparable circumstances. In addition, the Declaration of Trust contains other customary provisions limiting the liability of the Trustee and indemnifying the Trustee in respect of certain liabilities incurred by it in carrying out its duties.

The address of the Trustee is 100 University Avenue, 11<sup>th</sup> Floor, Toronto, Ontario M5J 2Y1.

The Trustee is entitled to receive fees from the Trust as described under “Fees And Expenses Payable by the Trust – Ongoing Expenses” and to be reimbursed by the Trust for all expenses which are reasonably incurred by the Trustee in connection with the activities of the Trust.

### **DECLARATION OF TRUST**

The following description of the Declaration of Trust does not purport to be complete and is subject to, and is qualified in its entirety by reference to the Declaration of Trust.

#### **Description of Trust Units**

The Trust is authorized to issue an unlimited number of transferable, redeemable units of beneficial interest, each of which represents an equal undivided interest in the net assets of the Trust. Fractions of Trust Units may be issued which will have the same rights, restrictions, conditions and limitations attaching to whole Trust Units in the proportion which they bear to a whole Trust Unit, except fractional Trust Units will not have the right to vote. Each Trust Unit entitles the holder to the same rights and obligations as a holder of any other Trust Unit and no holder of Trust Units is entitled to any privilege, priority or preference in relation to any other holder of Trust Units. Each holder of Trust Units is entitled to one vote for each whole Trust Unit held and is entitled to participate equally with respect to any and all distributions made by the Trust, including distributions of net income and net realized capital gains, if any. On termination or liquidation of the Trust, the holders of outstanding Trust Units of record are entitled to receive on a *pro rata* basis all of the assets of the Trust remaining after payment of all debts, liabilities and liquidation expenses of the Trust.

#### **Information and Reports to Unitholders**

The Trust will furnish to Unitholders such financial statements (including quarterly unaudited and annual audited financial statements, accompanied by management’s discussion and analysis of the affairs and operations of the Trust) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders’ tax returns under the Tax Act and equivalent provincial legislation.

Prior to any meeting of Unitholders, the Trust will provide the Unitholders (along with notice of such meeting) all such information as is required by applicable law to be provided to such holders.

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

At no time may non-residents of Canada be the beneficial owners of a majority of the Trust Units and the Trustee shall inform the Transfer Agent and Registrar of this restriction. The Trustee may require declarations as to the jurisdictions in which beneficial owners of Trust Units are resident. If the Trustee becomes aware, as a result of requiring such declarations as to beneficial ownership or otherwise, that the beneficial owners of 40% of the Trust Units then outstanding are, or may be, non-residents, or that such a situation is imminent, the Trustee may make a public announcement thereof. If the Trustee determines that a majority of the Trust Units are beneficially held by non-residents, the Trustee may send a notice to such non-resident Unitholders, chosen in inverse order to the order of acquisition or in such manner as the Trustee may consider equitable and practicable, requiring them to sell their Trust Units or a portion thereof within a specified period of not less than 30 days. If the Unitholders receiving such notice have not sold the specified number of Trust Units or provided the Trustee with satisfactory evidence that they are not non-residents within such period, the Trustee may on behalf of such Unitholders sell such Trust Units and, in the interim, shall suspend the voting and distribution rights attached to such Trust Units. Upon such sale, the affected holders shall cease to be beneficial holders of Trust Units and their rights shall be limited to receiving the net proceeds of sale of such Trust Units.

## **Repurchase of Trust Units**

The Declaration of Trust provides that, subject to applicable law, the Trust may, in its sole discretion, from time to time purchase (in the open market or by invitation for tenders) Trust Units for cancellation up to a maximum in any calendar year of ten percent of the aggregate of the number of Trust Units outstanding on the date that the purchase occurs and all Trust Units previously purchased by the Trust during the year in which the purchase occurs at a price per Trust Unit not exceeding the Net Asset Value per Trust Unit on the Valuation Date immediately prior to the date of any such purchase of Trust Units. It is expected that these purchases will be made as normal course issuer bids through the facilities and under the rules of the TSE or such other exchange or market on which the Trust Units are then listed.

## **Modification of Declaration of Trust and Meetings of Unitholders**

Except as provided below, the Declaration of Trust may be amended by an Ordinary Resolution approved at a meeting of Unitholders duly convened and held in accordance with the provisions in that regard contained in the Declaration of Trust, or by the written consent in lieu of a meeting if there is only one Unitholder. Not less than 21 days' notice will be given for any meeting of Unitholders. The quorum for any meeting of Unitholders is two or more Unitholders present in person or represented by proxy holding not less than five percent of the Trust Units then outstanding. If no quorum is present at such meeting when called, the meeting shall be adjourned for not less than 14 days and the Unitholders present in person or represented by proxy at such adjourned meeting form the necessary quorum. At any such meetings, each Unitholder will be entitled to one vote for each whole Trust Unit held.

The following may only be undertaken with the approval of Unitholders by an Ordinary Resolution given at a meeting called for the purpose of considering such Ordinary Resolution, provided that Unitholders holding at least ten percent of the Trust Units outstanding on the record date of the meeting vote in favour of such Ordinary Resolution:

- (i) any termination of the Management Agreement other than termination by the Manager or in circumstances where the Manager has been removed by the Trustee pursuant to the Declaration of Trust or the Management Agreement or has resigned;
- (ii) the liquidation, dissolution or termination of the Trust;
- (iii) an amendment to the Declaration of Trust to permit the redemption or retraction of Trust Units at the option of the Unitholder or the Trust, other than as currently provided for in the Declaration of Trust; and
- (iv) the sale of all or substantially all of the assets of the Trust other than in the ordinary course of business.

The following may only be undertaken with the approval of Unitholders by an Extraordinary Resolution:

- (i) the termination of the Trustee or any one of its affiliates as the trustee of the Trust;
- (ii) any change in the Investment Objectives, Investment Strategy or Investment Restrictions, unless such changes are necessary to ensure compliance with applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time;
- (iii) any material change in the Management Agreement, other than its termination;
- (iv) any increase in the Management Fee;
- (v) any amendment, modification or variation in the provisions or rights attaching to the Trust Units;
- (vi) any issue of Trust Units at a subscription price less than the most recently calculated Net Asset Value per Trust Unit prior to the date of the setting of the subscription price by the Trust; and
- (vii) any change in the frequency of calculating Net Asset Value per Trust Unit to less often than weekly.

The Trustee is entitled to amend the Declaration of Trust without the consent of, or notice to, the Unitholders, to:

- (i) ensure compliance with applicable laws, regulations or requirements of any governmental authority having jurisdiction over the Trust;
- (ii) maintain the status of the Trust as a “unit trust”, “mutual fund trust” and a “registered investment” under the Tax Act;
- (iii) make changes or corrections which counsel for the Trust advise are necessary or desirable for the correction of typographical mistakes or are required for the purpose of curing any ambiguity or defective or inconsistent provisions or omissions or manifest error; or
- (iv) provide added protection for Unitholders upon the advice of counsel to the Trust,

but only if such amendments do not in the opinion of the Manager adversely affect the pecuniary value of the interest of the Unitholders or restrict any protection for the Trustee or the Manager or increase their respective responsibilities.

The holders of not less than ten percent of the then outstanding Trust Units may requisition the Trustee to call a meeting of Unitholders for the purpose stated in the requisition.

The Trust, subject to obtaining all necessary regulatory approvals, does not intend to hold annual meetings of Unitholders. However, the Trust will undertake to the TSE to hold annual meetings of Unitholders if so instructed by the TSE. To date, the TSE has not instructed the Trust to hold annual meetings of Unitholders.

#### **Take-over Bids**

The Declaration of Trust contains provisions to the effect that if a take-over bid is made for the Trust Units and not less than 90% of the Trust Units (but not including any Trust Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror), are taken up and paid for by the offeror, the offeror will be entitled to acquire the Trust Units held by the Unitholders who did not accept the take-over bid on the terms offered by the offeror.

#### **Termination of the Trust**

The Trust will be terminated upon not less than 90 days' written notice to the Manager from the Trustee that an Ordinary Resolution calling for the termination of the Trust has been approved at a duly convened meeting of Unitholders, provided that Unitholders voting in favour of such Ordinary Resolution represent Trust Units equal to at least ten percent of the Trust Units outstanding on the record date of the meeting held to approve such Ordinary Resolution. Prior to the Termination Date, the Manager will instruct the Advisor to convert the Trust Investments to cash to the extent practicable and will satisfy or make appropriate provision for all liabilities of the Trust. The Manager may, in its discretion and upon not less than 30 days' notice to the Unitholders, extend the Termination Date by a period of up to 180 days if the Advisor advises the Manager that the Advisor will be unable to convert all of the Trust Investments to cash prior to the original Termination Date and the Manager determines that it would be in the best interests of the Unitholders to do so. The Trust will distribute to Unitholders their *pro rata* portions of the remaining assets of the Trust which will include cash and, to the extent liquidation of certain assets is not practicable or the Advisor considers such liquidation not to be appropriate prior to the Termination Date, such unliquidated assets in specie rather than in cash, subject to compliance with any securities or other laws applicable to such Distributions. See “Risk Factors”. Following such Distribution, the Trust will be dissolved.

The Trust will also be terminated in the event of the resignation of the Manager if a replacement Manager has not been appointed within 120 days of the date upon which the Manager gives notice to the Trustee of its resignation. Such termination shall occur on the date which is 60 days following the last day of the aforementioned 120 day period.



## **PROMOTER**

The Manager took the initiative in creating the Trust and, accordingly, is a promoter as defined in the securities legislation of certain provinces and territories of Canada. The Manager has purchased a Trust Unit for \$25 for the purpose of organizing the Trust. Except as otherwise described herein, the Manager will not receive any benefits, directly or indirectly, from the issuance of Trust Units offered hereunder.

## **LEGAL PROCEEDINGS**

The Trust, the Manager and the Advisor are not involved in any material legal proceedings, nor is the Trustee or the Manager aware of existing or pending legal or arbitration proceedings involving the Trust, the Manager or the Advisor.

## **MATERIAL CONTRACTS**

The only material contracts entered into by the Trust or the Manager during the past two years or to which either of them will become a party prior to the closing of this Offering, other than during the ordinary course of business, are as follows:

- (a) the Declaration of Trust referred to under “The Trust” and under “Declaration of Trust”;
- (b) the Management Agreement referred to under “The Manager and the Management Agreement”;
- (c) the Advisory Agreement referred to under “The Advisor and the Advisory Agreement”;
- (d) the Custodian Agreement to be entered into on or prior to the Closing Date referred to under “Custodian”;
- (e) the Agency Agreement referred to under “Plan of Distribution”; and
- (f) the Reinvestment Plan Agency Agreement to be entered into on or prior to the Closing Date referred to under “Distribution and Reinvestment Plan – Distribution Reinvestment Plan”.

Copies of the foregoing documents may be examined during normal business hours at the principal office of the Trust during the period of distribution to the public of the Trust Units offered under the Offering and for a period of 30 days thereafter. Copies of the Declaration of Trust may be obtained at any time from the Trustee on written request.

## **LEGAL MATTERS**

Certain legal matters in connection with the issuance and sale of the Trust Units offered by this prospectus will be passed upon on behalf of the Trust by Goodman and Carr LLP and on behalf of the Agents by Borden Ladner Gervais LLP.

## **AUDITORS**

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

## **CUSTODIAN**

The Royal Trust Company will be appointed the custodian of the Trust’s assets on or prior to the Closing Date pursuant to the Custodian Agreement.

The Custodian may employ sub-custodians as considered appropriate in the circumstances. The address of the Custodian is 77 King Street West, 11th Floor, Toronto, Ontario M5W 1P9.

### **REGISTRAR, TRANSFER AGENT AND DISTRIBUTION AGENT**

Computershare Trust Company of Canada has been appointed the registrar, transfer agent and distribution agent for the Trust Units.

The register and transfer ledger will be kept by the Trustee at its principal stock and bond transfer offices located in Toronto.

### **PURCHASERS' STATUTORY RIGHTS**

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

## AUDITORS' REPORT

To the Unitholder and the Trustee of Brompton VIP Income Trust

We have audited the statement of financial position of Brompton VIP Income Trust (the "Trust") as at January 29, 2002. This statement of financial position is the responsibility of the Trust'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 statement of financial position is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial position. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statement of financial position.

In our opinion, this financial statement presents fairly, in all material respects, the financial position of the Trust as at January 29, 2002 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada  
January 29, 2002

(Signed) PRICEWATERHOUSECOOPERS LLP  
Chartered Accountants

**BROMPTON VIP INCOME TRUST**  
**STATEMENT OF FINANCIAL POSITION**  
**As at January 29, 2002**

**Assets**

Cash ..... \$25

**Unitholder's Equity**

Unit Issued for Cash (Note 1) ..... \$25

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

Approved on behalf of Brompton VIP Income Trust  
By: Brompton VIP Management Limited

(signed) PETER A. BRAATEN  
Director

(signed) RAYMOND R. PETHER  
Director

**BROMPTON VIP INCOME TRUST**  
**NOTES TO STATEMENT OF FINANCIAL POSITION**  
**As at January 29, 2002**

**1. ORGANIZATION AND UNITHOLDER'S EQUITY**

Brompton VIP Income Trust (the "Trust") is a closed-end investment trust created under the laws of the Province of Ontario pursuant to an amended and restated declaration of trust dated as of January 29, 2002. The beneficiaries of the Trust will be the holders of Trust Units being offered pursuant to this prospectus. The Trust has authorized an unlimited number of redeemable transferable trust units ("Trust Units"). As of January 29, 2002, one Trust Unit had been issued for cash consideration of \$25 to Brompton VIP Management Limited (the "Manager"), the manager of the Trust.

**2. MANAGEMENT AND SERVICE FEES**

Pursuant to a management agreement, the Manager is paid a Management Fee equal to 0.85% per annum of the Net Asset Value of the Trust. Pursuant to an investment advisory agreement, the Manager is responsible for paying the fees payable to the Advisor out of its Management Fee and the investment advisory fee is not payable or reimbursable by the Trust. The Trust will also pay to the Manager a Service Fee of 0.40% per annum of the Net Asset Value of Trust Units held by clients of dealers. The Service Fee will be used by the Manager to in turn pay a service fee to dealers based on the number of Trust Units held by the clients of such dealers.

**3. SUBSEQUENT EVENT**

- (a) The Trust and the Manager have entered into an agency agreement with Raymond James Ltd., BMO Nesbitt Burns Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., Scotia Capital Inc., TD Securities Inc., National Bank Financial Inc., HSBC Securities (Canada) Inc., Yorkton Securities Inc., Brompton Securities Limited, Desjardins Securities Inc., Dundee Securities Corporation and Research Capital Corp. (collectively, the "Agents") dated as of January 29, 2002 pursuant to which the Trust has agreed to create, issue and sell, and the Agents have agreed to offer for sale to the public, a minimum of 4,000,000 Trust Units and a maximum of 15,000,000 Trust Units at \$10 per Trust Unit.
- (b) As set forth in the initial public offering prospectus dated January 29, 2002, the Trust proposes to issue a minimum of 4,000,000 Trust Units and a maximum of 15,000,000 Trust Units at a price of \$10 per Trust Unit.

**CERTIFICATE OF THE TRUST AND THE PROMOTER**

Dated: January 29, 2002

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of the *Securities Act* (Saskatchewan), by Part VII of the *Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Section 63 of the *Securities Act* (Nova Scotia), by Section 13 of the *Security Frauds Prevention Act* (New Brunswick), by Part II of the *Securities Act* (Prince Edward Island), by Part XIV of the *Securities Act* (Newfoundland), by the *Securities Act* (Yukon), by the *Securities Act* (Northwest Territories) and by the *Securities Act* (Nunavut) and the respective regulations thereunder. This prospectus does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed within the meaning of the *Securities Act* (Quebec) and the respective regulations thereunder.

**BROMPTON VIP INCOME TRUST**  
**By: ITS ATTORNEY BROMPTON VIP MANAGEMENT LIMITED**

By: (Signed) DONALD W.C. LILLIE  
President and Chief Executive Officer

By: (Signed) MARK A. CARANCI  
Chief Financial Officer

On behalf of the board of directors of  
**BROMPTON VIP MANAGEMENT LIMITED**

By: (Signed) PETER A. BRAATEN  
Director

By: (Signed) RAYMOND R. PETHER  
Director

Promoter  
**BROMPTON VIP MANAGEMENT LIMITED**

By: (Signed) DONALD W.C. LILLIE  
President and Chief Executive Officer

## CERTIFICATE OF THE AGENTS

Dated: January 29, 2002

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of the *Securities Act*, (Saskatchewan), by Part VII of the *Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Section 64 of the *Securities Act* (Nova Scotia), by Section 13 of the *Security Frauds Prevention Act* (New Brunswick), by Part II of the *Securities Act* (Prince Edward Island), by Part XIV of the *Securities Act* (Newfoundland), by the *Securities Act* (Yukon), by the *Securities Act* (Northwest Territories) and by the *Securities Act* (Nunavut) and the respective regulations thereunder. To 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.

RAYMOND JAMES LTD.

By: (Signed) BRIAN K. BEGERT

BMO NESBITT  
BURNS INC.  
By: (Signed)  
JOHN MANNING

CIBC WORLD  
MARKETS INC.  
By: (Signed)  
T. TIMOTHY KITCHEN

RBC DOMINION  
SECURITIES INC.  
By: (Signed)  
FREDERICK CHANN

SCOTIA CAPITAL  
INC.  
By: (Signed)  
BRIAN D. MCCHESEY

TD SECURITIES  
INC.  
By: (Signed)  
DAVID BEATTIE

NATIONAL BANK FINANCIAL INC.  
By: (Signed) JULIAN J. DIN

HSBC SECURITIES (CANADA) INC.  
By: (Signed) DEBORAH J. SIMKINS

YORKTON  
SECURITIES INC.  
By: (Signed)  
MARILIA COSTA

BROMPTON  
SECURITIES  
LIMITED  
By: (Signed)  
DONALD LENZ

DESJARDINS  
SECURITIES INC.  
By: (Signed)  
ERIC DESORMEAUX

DUNDEE  
SECURITIES  
CORPORATION  
By: (Signed)  
DAVID P. STYLES

RESEARCH  
CAPITAL CORP.  
By: (Signed)  
BETH SHAW

**V**ALUE      **I**NTEGRITY      **P**ERFORMANCE

*Brompton*  **INCOME TRUST**

Advisor



A member of the



Group of companies