

PROSPECTUS

Initial Public Offering

May 31, 2010

**HARVEST**  
PORTFOLIOS GROUP

**Avenue**  
Investment Management



**HARVEST CANADIAN INCOME & GROWTH FUND**

**Maximum: \$100,000,008 (8,333,334 Units)**

**\$12.00 per Unit**

**Harvest Canadian Income & Growth Fund (the “Fund”)** is a closed-end investment fund governed by the laws of the Province of Ontario which proposes to issue units (the “Units”) of the Fund (the “Offering”) at a price of \$12.00 per Unit. Each Unit consists of one transferable trust unit (“Trust Unit”) and one Trust Unit purchase warrant (“Warrant”). The Units will separate into Trust Units and Warrants upon the earlier of the closing of the Over-Allotment Option (as defined herein) and the 30th day following the closing of the Offering. Each Warrant entitles the holder to purchase one Trust Unit at the subscription price of \$12.00 per Trust Unit by notifying the Warrant Agent (as defined herein) during any Warrant Notice Period (as defined herein) or before 5:00 p.m. (Toronto time) on November 30, 2011 (the “Warrant Expiry Date”). Such Warrants will be exercised effective at 5:00 p.m. (Toronto time) on the applicable Warrant Exercise Date (as defined herein). Warrants not exercised by the Warrant Expiry Date will be void and of no value.

**Rationale and Investment Strategy of the Fund**

Harvest Portfolios Group Inc. (“**Harvest**” or, the “**Manager**”) and Avenue Investment Management Inc. (“**Avenue**” or, the “**Investment Manager**”) believe that the Canadian economy is highly dynamic and progressive and as a result has outperformed other G7 economies which makes it an attractive market in which to invest relative to the global economy. However investors seeking to invest in the Canadian market may find that this market has relatively poor diversification due to its overweighting in the financials and resources sectors, which are both highly cyclical in nature. The Manager intends to strategically reduce portfolio volatility by investing a large portion of the Fund in Canadian issuers that generate the majority of their income in less cyclical segments of the economy.

The Fund has been created to provide investors with income and the potential for capital appreciation over the course of the business cycle by investing the net proceeds of the Offering in an actively managed portfolio comprised primarily of dividend-paying securities and income trust units of publicly-traded utilities, industrial, communications, real estate and retail issuers domiciled in Canada. The Investment Manager will focus on the less cyclical segments of the Canadian equities market with the goal of reducing volatility by diversifying away from the main sectors (financials, energy and materials) that make up approximately 75% of the market capitalization on the Toronto Stock Exchange (“**TSX**”). The Investment Manager will invest primarily in issuers that it believes have: (i) proven long-term histories of earnings; (ii) established and experienced management; and (iii) business models that are not primarily dependent on commodity prices with a view to delivering:

1. Attractive income generation;
2. Opportunity for capital gains; and
3. Lower volatility relative to the overall S&P/TSX composite index.

**Investment Objectives**

The Fund’s investment objectives are:

- (i) to provide holders of Units (“**Unitholders**”) with monthly distributions (initially targeted to be \$0.07 per Trust Unit (\$0.84 per annum) representing an annual cash distribution of 7.0% based on the \$12.00 per Unit issue price); and
- (ii) to maximize long-term total return for Unitholders while reducing volatility.

**Harvest Portfolios Group Inc.**

Harvest will act as the trustee, manager and promoter of the Fund and will provide all administrative services required by the Fund. Harvest is a Canadian Investment Fund Manager and is the manager of Harvest Banks & Buildings Income Fund, an investment fund that trades on the TSX (HBB.UN).

**Avenue Investment Management Inc.**

The Manager has retained Avenue to provide investment management services to the Fund. The Investment Manager is a Canadian investment management firm founded in 2002. As of March 31, 2010, Avenue had assets under management of approximately \$140 million and has focused its efforts on private investment management for high net worth clients. Avenue also manages the Harvest Banks & Buildings Income Fund.

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**Price: \$12.00 per Unit**  
**(Minimum Purchase: 200 Units)**

	Price to the Public <sup>(1)</sup>	Agents' Fee	Net Proceeds to the Fund <sup>(2)</sup>
Per Unit . . . . .	\$12.00	\$0.63	\$11.37
Total Minimum Offering <sup>(3)</sup> . . . . .	\$20,000,004	\$1,050,000	\$18,950,004
Total Maximum Offering <sup>(4)</sup> . . . . .	\$100,000,008	\$5,250,000	\$94,750,008

Notes:

- (1) The Offering price was established by negotiation between the Agents (defined below) and the Manager.
- (2) Before deducting the expenses of this issue (estimated at \$650,000) which, subject to a maximum of 1.5% of the gross proceeds of the Offering will, together with the Agents' fees, be paid out of the proceeds of the Offering.
- (3) There will be no closing unless a minimum of 1,666,667 Units are sold. If subscriptions for a minimum of 1,666,667 Units have not been received within 90 days following the date of issuance of a final receipt for this prospectus, the Offering may not continue without the consent of the securities authorities and those who have subscribed on or before such date.
- (4) The Fund has granted to the Agents an option (the "Over-Allotment Option"), exercisable in whole or in part for a period of 30 days following the closing of the Offering, to purchase an aggregate of up to 15% of the aggregate number of Units issued at the closing of the Offering on the same terms set forth above (the "Option Units"). If the Over-Allotment Option is exercised in full, the total price to the public under the maximum offering will be \$115,000,009, the Agents' fees will be \$6,037,500 and the net proceeds to the Fund will be \$108,312,509. See "Plan of Distribution". This prospectus also qualifies both the grant of the Over-Allotment Option and the issuance of Option Units upon the exercise of such option.

The Fund intends to make monthly cash distributions to Unitholders of record on the last Business Day of each month and pay such cash distributions on or before the 15th day of the following month. Beginning in June 2011, the Fund will annually determine and announce the indicative distribution amount (the "Indicative Distribution Amount") for the following year based upon the prevailing market conditions. The Indicative Distribution Amount will be \$0.07 per Trust Unit per month (\$0.84 per annum) for the first 12 months of the Fund. The initial cash distribution is anticipated to be payable on or before August 15, 2010 to Unitholders of record on July 30, 2010.

Assuming the gross proceeds of the Offering are \$100 million and fees and expenses are as described herein, the Portfolio (as defined herein), using the maximum amount of leverage permitted, would be required to generate an average annual total return of 8.15%, inclusive of dividend and interest income, in order for the Fund to achieve its initial Indicative Distribution Amount level. Based on the anticipated composition of the Portfolio it is expected that distributions on securities held in the Portfolio will be sufficient to fund the Fund's distributions at the initially targeted level. If the return on the Portfolio (including net realized capital gains from the sale of securities in the Portfolio) is less than the amount necessary to fund the monthly distributions, the Manager will return a portion of the capital of the Fund to Unitholders to ensure the distribution is paid and, accordingly, net asset value per Trust Unit will be reduced. See "Distribution Policy", "Investment Strategies" and "Risk Factors". The amount of distributions may fluctuate and no assurance can be given that distributions will remain at the initial Indicative Distribution Amount level. Following the conversion of the Fund to an open-end fund on June 20, 2012, the Fund will not be able to use leverage to pursue its investment strategy and therefore the Fund may not pay a distribution at the initial Indicative Distribution Amount unless the Portfolio yields a higher return to the Fund.

**There is currently no market through which the Units, Trust Units or Warrants may be sold.**

The TSX has conditionally approved the listing of the Units, Trust Units and Warrants. The listing is subject to the Fund fulfilling all of the requirements of the TSX on or before July 26, 2010. The Agents may over-allot or effect transactions as described under "Plan of Distribution". The Units, Trust Units and Warrants will be listed on the TSX under the symbols HCF.A, HCF.UN and HCF.WT, respectively.

**There is no assurance that the Fund will meet its distribution and capital appreciation objectives. See "Risk Factors" for a discussion of certain factors that should be considered by prospective investors in Trust Units including with respect to the use of leverage. Amounts distributed on the Trust Units that represent returns of capital are generally non-taxable to a Unitholder but reduce the Unitholder's adjusted cost base of the Trust Units for tax purposes. See "Income Tax Considerations".**

The value of Trust Units will be reduced if the NAV per Trust Unit exceeds \$11.70 and Warrants are exercised. If a Unitholder does not exercise Warrants in such circumstances, the Unitholder's pro rata interest in the assets of the Fund will be diluted. In order to maintain a Unitholder's pro rata interest in the assets of the Fund, the Unitholder will be required to pay in connection with the exercise of the Warrants an additional amount equal to the amount originally invested by the Unitholder on the Closing Date (as defined herein). While a Unitholder may sell the Warrants acquired hereunder, no assurance can be given that the proceeds of such sale would compensate the Unitholder for such dilution. Upon the exercise of a Warrant, the Fund will pay a fee equal to \$0.18 per Warrant to the dealer whose client is exercising the Warrant and \$0.12 per Warrant to the Agents. See "Attributes of the Units, Trust Units and Warrants".

**On June 20, 2012, the Fund will become an open-end mutual fund (the "Conversion"). The Conversion may be implemented either by way of a conversion of the Fund to an open-ended mutual fund or by way of a tax-deferred merger with an open-ended mutual fund managed by the Manager or an affiliate thereof (including a fund formed after the date of this prospectus). On and after the Conversion, the Trust Units will be redeemable at NAV per Trust Unit (as defined herein) on a daily basis, and the Fund will become subject to NI 81-102. See "Conversion of the Fund".**

Trust Units may also be redeemed at the option of Unitholders at the NAV per Trust Unit on June 1, 2012. See "Redemption of Trust Units — Redemption of Trust Units on the First NAV Redemption Date".

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Prospective purchasers may purchase Units either by (i) cash payment or (ii) an exchange (the “**Exchange Option**”) of each class or series of securities listed under the heading “Purchases of Securities — The Exchange Eligible Securities” (the “**Exchange Eligible Securities**”). The maximum number of Exchange Eligible Securities of any one Issuer (as defined herein) that the Fund may acquire under the Exchange Option is the lesser of (i) that number that would constitute 10% of the net assets of the Fund, (ii) that number that, if combined with the other securities of such Issuer either held, directly or indirectly, or over which control or direction is exercised by the Manager, the Investment Manager or any party acting jointly or in concert with the Manager or the Investment Manager, would result in the Manager, Investment Manager and any such party directly or indirectly holding or exercising control or direction over 19.9% of the outstanding securities of such Issuer, and (iii) that number of securities with a fair market value that constitutes 9.9% of the equity value of such Issuer for purposes of section 122.1 of the Tax Act (as defined herein) (such lesser number being referred to as the “**Maximum Ownership Level**”). To the extent that the Maximum Ownership Level has been achieved in respect of the securities of any one Issuer and an excess of securities of such Issuer above the Maximum Ownership Level has been deposited and not rescinded, then the securities of such Issuer will be accepted by the Fund up to the Maximum Ownership Level and the balance will be re-credited to purchasers’ accounts through CDS Clearing and Depository Services Inc. (“**CDS**”).

This Exchange Option does not constitute a take-over bid for any Issuer. See “Purchases of Securities — The Exchange Option”. The number of Units issuable in exchange for an Exchange Eligible Security (the “**Exchange Ratio**”) will be determined by dividing the volume weighted average trading price of such securities on the TSX during the three consecutive trading days ending on, and including, June 7, 2010 (the “**Pricing Period**”), as adjusted to reflect distributions declared by the applicable Issuer that will not be received by the Fund, by \$12.00. See “Purchases of Securities — Determination of Exchange Ratios”. Prospective purchasers under the Exchange Option must have deposited Exchange Eligible Securities with Equity Transfer & Trust Company (the “**Exchange Agent**”) through CDS prior to 5:00 p.m. (Toronto time) on May 25, 2010. See “Purchases of Securities — Procedure for the Exchange Option”.

In the opinion of Borden Ladner Gervais LLP, counsel to the Fund, and Blake, Cassels & Graydon LLP, counsel to the Agents, provided that the Fund qualifies and continues at all times to qualify as a “mutual fund trust” within the meaning of the *Income Tax Act* (Canada) (the “**Tax Act**”), or that the Trust Units are listed on a designated stock exchange under the Tax Act (which includes the TSX), the Trust Units will be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered disability savings plans, registered education savings plans and tax-free savings accounts (each a “**plan trust**”). Provided that the Warrants are listed and continue at all times to be listed on a designated stock exchange for purposes of the Tax Act (which includes the TSX), or provided that at all times the Trust Units are qualified investments under the Tax Act for plan trusts and the Fund is not, and deals at arm’s length with each person who is, an annuitant, a beneficiary, an employer or a subscriber under or a holder of a plan trust, the Warrants will be qualified investments for plan trusts. Holders of tax-free savings accounts should consult with their own tax advisors as to whether the Trust Units or the Warrants would be prohibited investments under the Tax Act in their particular circumstances. See “Income Tax Considerations — Status of the Fund” and “Income Tax Considerations — Taxation of Registered Plans”.

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

BMO Nesbitt Burns Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., Scotia Capital Inc., National Bank Financial Inc., HSBC Securities (Canada) Inc., Dundee Securities Corporation, Raymond James Ltd., Canaccord Genuity Corp., Macquarie Capital Markets (Canada) Ltd., Wellington West Capital Markets Inc., Desjardins Securities Inc. and Industrial Alliance Securities Inc. (collectively, the “**Agents**”) conditionally offer the Units, subject to prior sale, on a best efforts basis, if, as and when issued by the Fund and accepted by the Agents in accordance with the conditions contained in the Agency Agreement (defined under “Plan of Distribution”), and subject to the approval of certain legal matters by Borden Ladner Gervais LLP, on behalf of the Fund and the Manager, and Blake, Cassels & Graydon LLP, on behalf of the Agents.

Subscriptions for Units will be received subject to acceptance or rejection in whole or in part, and the right is reserved to close the subscription books at any time without notice. Closing of the Offering is expected to occur on or about June 29, 2010 but no later than July 27, 2010 (the “**Closing Date**”). The Offering will be conducted under the book-entry only system; accordingly, a subscriber who purchases Units will receive a customer confirmation from the registered dealer from or through whom Units are purchased. CDS will record the CDS participants who hold Trust Units and Warrants on behalf of owners who have purchased or transferred Trust Units and Warrants in accordance with the book-entry only system. Certificates evidencing Units, Trust Units and Warrants will not be issued.

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## GLOSSARY OF TERMS

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

“**Agency Agreement**” means the agency agreement dated as of May 31, 2010 among the Fund, the Manager, the Investment Manager and the Agents.

“**Agents**” means, collectively, BMO Nesbitt Burns Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., Scotia Capital Inc., National Bank Financial Inc., HSBC Securities (Canada) Inc., Dundee Securities Corporation, Raymond James Ltd., Canaccord Genuity Corp., Macquarie Capital Markets (Canada) Ltd., Wellington West Capital Markets Inc., Desjardins Securities Inc. and Industrial Alliance Securities Inc.

“**Alternative Proposal**” has the meaning ascribed to in “Risk Factors — Taxation of the Fund”.

“**Business Day**” means any day on which the TSX is open for trading.

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

“**CDS Participants**” means participants 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 June 29, 2010 or such later date as the Fund and the Agents may agree, but in any event not later than July 27, 2010.

“**Conversion**” means the conversion of the Fund to an open-end mutual fund.

“**Conversion Date**” means June 20, 2012, the date upon which the Conversion will occur.

“**CRA**” means the Canada Revenue Agency.

“**Custodian**” means State Street Trust Company Canada, in its capacity as custodian under the Custodian Agreement.

“**Declaration of Trust**” means the declaration of trust dated May 31, 2010, as it may be amended from time to time.

“**Distribution Payment Date**” means the date that is on or before the 15<sup>th</sup> day of the month following the applicable distribution date.

“**Exchange Agent**” means Equity Transfer & Trust Company, the exchange agent for the Exchange Option.

“**Exchange Eligible Securities**” means each class or series of securities listed under the heading “Purchases of Securities — The Exchange Eligible Securities”.

“**Exchange Option**” means the option to satisfy the purchase price of the Units under the Offering by exchanging Exchange Eligible Securities at the applicable Exchange Ratio.

“**Exchange Option Election**” means an election by a prospective purchaser of Units to use the Exchange Option.

“**Exchange Ratio**” means the number of Units issuable for an Exchange Eligible Security to be determined by dividing the volume weighted average trading price of such securities on the TSX during the Pricing Period, as adjusted to reflect distributions declared by the applicable Issuer that will not be received by the Fund, by \$12.00.

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

“**First NAV Redemption Date**” means June 1, 2012.

“**Fund**” means Harvest Canadian Income & Growth Fund, a closed-end investment fund established under the laws of Ontario pursuant to the Declaration of Trust.

“**Indicative Distribution Amount**” means the indicative distribution amount of the Fund, initially \$0.84 per Trust Unit per annum for the first 12 months of the Fund, and thereafter as determined by the Manager each year.

“**Investment Management Agreement**” means the investment management agreement dated May 31, 2010, as it may be amended from time to time.

“**Issuer**” means an issuer of Exchange Eligible Securities in respect of which the Exchange Option Election is made.

“**Lender**” means a Canadian chartered bank or other financial institution that will enter into the Loan Facility with the Fund.

“**Loan Facility**” means the loan facility to be entered into between the Fund and the Lender.

“**Manager**” or “**Harvest**” means the manager of the Fund, Harvest Portfolios Group Inc.

“**Management Agreement**” means the management agreement dated May 31, 2010, as it may be amended from time to time.

“**Maximum Ownership Level**” means the number of Exchange Eligible Securities of any one Issuer that the Fund may acquire under the Offering pursuant to the Exchange Option, which is the lesser of (i) that number that would constitute 10% of the net assets of the Fund, (ii) that number that, if combined with the other securities of such Issuer either held, directly or indirectly, or over which control or direction is exercised by the Manager, the Investment Manager or any party acting jointly or in concert with the Manager or the Investment Manager, would result in the Manager, the Investment Manager and any such party directly or indirectly holding or exercising control or direction over 19.9% of the outstanding securities of such Issuer and (iii) that number of securities with a fair market value that constitutes 9.9% of the equity value of such Issuer for purposes of section 122.1 of the Tax Act.

“**Monthly Redemption**” means the monthly redemption of Trust Units as described under “Redemption of Trust Units — Monthly Redemption”.

“**Monthly Redemption Date**” with respect to particular Trust Units means the last Business Day of each month in which the Trust Units were surrendered for a Monthly Redemption.

“**MSCI Emerging Markets Index**” means the MSCI Emerging Markets Index, or its successor index, and in the case there is no successor index, then such other comparable index, if one exists, shall replace the MSCI Emerging Markets Index as of the date of such determination.

“**NAV per Trust Unit**” means the NAV of the Fund divided by the number of Trust Units outstanding at the time the calculation is made.

“**Net Asset Value**” or “**NAV**” means the net asset value of the Fund, as determined by subtracting the aggregate amount of the liabilities of the Fund from the total assets and as more particularly set forth in the Declaration of Trust.

“**NI 81-102**” means National Instrument 81-102 Mutual Funds of the Canadian Securities Administrators, as it may be amended from time to time.

“**Notice Period**” means the period from the first Business Day of May, 2012 until 5:00 p.m. (Toronto time) on the tenth Business Day prior to the last Business Day of May, 2012.

“**October 2003 Proposals**” has the meaning ascribed to in “Risk Factors — Taxation of the Fund”.

“**Offering**” means the offering of a minimum of 1,666,667 Units and a maximum of 8,333,334 Units at the Offering Price, as contemplated in this prospectus.

“**Offering Price**” means a price of \$12.00 per Unit.

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

“**Over-Allotment Option**” means the option granted by the Fund to the Agents, exercisable for a period of 30 days following Closing, to purchase an aggregate of up to 15% of the aggregate number of Units issued at Closing solely to cover over-allotments, if any.

“**Pricing Period**” means the period of the three consecutive trading days ending on, and including, June 7, 2010.

“**Portfolio**” means the assets held by the Fund from time to time.

“**Redemption Payment Date**” means the date that is on or before the 15<sup>th</sup> Business Day following the applicable Monthly Redemption Date.

“**Registrar and Transfer Agent**” means Equity Transfer & Trust Company.

“**REIT**” means real estate investment trust.

“**SIFT Rules**” mean the provisions of the Tax Act providing for a tax on certain income earned by a specified investment flow through trust or partnership which became law on June 22, 2007.

“**Tax Act**” means the *Income Tax Act* (Canada) as amended and the regulations thereunder.

“**Trust Units**” means the transferable trust units of the Fund.

“**Trustee**” means initially Harvest, in its capacity as trustee under the Declaration of Trust, and thereafter such successor as may be appointed trustee in accordance with the provisions of the Declaration of Trust.

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

“**Unit**” means one Trust Unit and one Warrant of the Fund.

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

“**Valuation Time**” means 4:15 p.m. (Toronto time) on each Thursday during the year (or, if a Thursday is not a Business Day, the Business Day following such Thursday) and on the last Business Day of each month, and any other time as may be determined by the Manager from time to time.

“**Warrant**” means a warrant of the Fund issued pursuant to the Warrant Indenture, each whole Warrant entitling the holder thereof to purchase one Trust Unit at a subscription price of \$12.00 on or before the Warrant Expiry Time.

“**Warrant Agent**” means Equity Transfer & Trust Company.

“**Warrant Exercise Date**” means 5:00 p.m. (Toronto time) on the tenth Business Day of the applicable month and, in the case of Warrants that are exercised on November 30, 2011, means November 30, 2011.

“**Warrant Expiry Date**” means November 30, 2011.

“**Warrant Expiry Time**” means 5:00 p.m. (Toronto time) on the Warrant Expiry Date.

“**Warrant Indenture**” means the warrant indenture to be dated the date of the closing of the Offering between the Fund and the Warrant Agent.

“**Warrant Notice Period**” means the period between the first Business Day and 5:00 p.m. on the tenth Business Day of any calendar month starting once the Units separate (up to and including November 2011) and November 30, 2011.

## **INFORMATION REGARDING PUBLIC INFORMATION**

*Certain information contained in this prospectus relating to publicly traded securities and the issuers of those securities is taken from and based solely upon information published by those issuers. In addition, certain information contained in this prospectus was obtained from public sources. Neither the Manager, the Investment Manager, the Fund nor the Agents have independently verified the accuracy or completeness of any such information or assume any responsibility for the completeness or accuracy of such information.*

## **FORWARD LOOKING STATEMENTS**

*Certain statements included in this prospectus constitute forward looking statements or information, including those identified by the expressions “anticipate”, “believe”, “plan”, “estimate”, “expect”, “intend” and similar expressions to the extent they relate to the Fund, the Manager or the Investment Manager. The forward looking statements and information are not historical facts but reflect the Fund’s, the Manager and/or the Investment Manager’s current expectations regarding future results or events. The prospectus includes, from a number of third party sources forward looking statements or information and although the Fund, the Manager and/or Investment Manager believes such statements or information to be reliable, no assurance can be given that such forward looking statements or information will be accurate. These forward looking statements and information are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including the matters discussed under “Risk Factors” and in other sections of this prospectus. Accordingly readers should not place undue reliance on forward looking statements and information. All forward looking statements and information is qualified by this cautionary statement.*

## PROSPECTUS SUMMARY

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

### THE FUND

The Fund is an investment fund established under the laws of the Province of Ontario pursuant to the Declaration of Trust.

### THE OFFERING

- Offering:** The Offering consists of Units of the Fund. Each Unit consists of one Trust Unit and one Warrant. The Units will separate into Trust Units and Warrants upon the earlier of the closing of the Over-Allotment Option and the 30th day following the closing of the Offering. Each Warrant entitles the holder to subscribe for one Trust Unit at the subscription price of \$12.00 per Trust Unit. Warrants may be exercised prior to the Warrant Expiry Time. Holders who exercise the Warrants will become holders of Trust Units, issued through the exercise of the Warrants. Warrants not exercised prior to 5:00 p.m. (Toronto time) on November 30, 2011 will be void and of no value.
- Amount:** Minimum: \$20,000,004 (1,666,667 Units)  
Maximum: \$100,000,008 (8,333,334 Units)
- Offering Price:** \$12.00 per Unit
- Minimum Purchase:** 200 Units (\$2,400)
- Rationale for the Fund:** The Manager and the Investment Manager believe that the Canadian economy is highly dynamic and progressive and as a result has outperformed other G7 economies which makes it an attractive market in which to invest relative to the global economy. However investors seeking to invest in the Canadian market may find that this market has relatively poor diversification due to its overweighting in the financials and resources sectors, which are both highly cyclical in nature. The Investment Manager intends to strategically reduce portfolio volatility by investing a large portion of the Fund in Canadian issuers that generate the majority of their income in less cyclical segments of the economy.
- Investment Objectives:** The Fund's investment objectives are:
- (i) to provide Unitholders with monthly distributions (initially targeted to be \$0.07 per Trust Unit (\$0.84 per annum) representing an annual cash distribution of 7.0% based on the \$12.00 per Unit issue price); and
  - (ii) to maximize long-term total return for Unitholders while reducing volatility.
- Investment Strategy:** The Fund has been created to provide investors with income and the potential for capital appreciation over the course of the business cycle by investing the net proceeds of the Offering in an actively managed

portfolio comprised primarily of dividend-paying securities and income trust units of publicly-traded utilities, industrial, communications, real estate and retail issuers domiciled in Canada. The Investment Manager will focus on the less cyclical segments of the Canadian equities market with the goal of reducing volatility by diversifying away from the main sectors (financials, energy and materials) that make up approximately 75% of the market capitalization on the TSX. The Investment Manager will invest primarily in issuers that it believes have: (i) proven long-term histories of earnings; (ii) established and experienced management; and (iii) business models that are not primarily dependent on commodity prices with a view to delivering:

1. Attractive income generation;
2. Opportunity for capital gains; and
3. Lower volatility relative to the overall S&P/TSX composite index.

The Investment Manager intends to invest, on behalf of the Fund, in issuers that have had a history of consistent dividends or distributions. The Investment Manager will focus on leverage metrics such as debt/EBITDA, debt/total capitalization, capital ratios and upcoming debt maturity schedules in order to reduce the potential for debt distress. The Investment Manager will focus on free cash flow and free cash flow yield, earnings potential, and the investment's intrinsic value in order to assess dividend sustainability and growth in distributions. The Investment Manager also has the ability to invest up to 30% of the Fund in publicly-traded securities of issuers domiciled outside of Canada. In doing so, the Investment Manager will invest in issuers using the same analysis and leverage metrics as the domestic portion of the portfolio.

**Foreign Currency Hedging:**

Although the Fund will predominantly invest in Canadian securities, the Fund may also be exposed to a limited number of foreign currencies. The Investment Manager will take currency exposure into account in managing the Portfolio and does not initially intend to hedge the Fund's currency exposure but from time to time may hedge up to 100% of the Portfolio's non-Canadian currency exposure.

**Borrowing:**

Prior to Conversion, the Fund is authorized to borrow for the purpose of making investments in accordance with its investment objectives and restrictions, and to pledge its assets to secure the borrowings. After Closing, the Fund intends to enter into a Loan Facility with one or more Canadian chartered banks. The Loan Facility will permit the Fund to borrow an amount not exceeding 20% of the value of the total assets of the Fund (25% of NAV) at the time of draw down. Accordingly, the maximum amount of leverage that the Fund could have, at the time of borrowing, is 1.25:1. The interest rate, fees and expenses under the Loan Facility are expected to be typical of similar credit facilities. Once the net proceeds from the Offering have been fully invested, the Fund expects to utilize the Loan Facility from time to time. Prior to the Conversion Date, all amounts outstanding under the

Loan Facility, including all interest accrued thereon, will be repaid in full. See “Investment Strategies — Borrowing”.

**Exchange Option:**

The price for each Unit purchased may be paid either by cash or by an exchange of freely tradeable Exchange Eligible Securities.

The maximum number of Exchange Eligible Securities of any one Issuer that the Fund may acquire under the Exchange Option is the lesser of (i) that number that would constitute 10% of the net assets of the Fund, (ii) that number that, if combined with the other securities of such Issuer either held, directly or indirectly, or over which control or direction is exercised by the Manager, the Investment Manager or any party acting jointly or in concert with the Manager or the Investment Manager, would result in the Manager, the Investment Manager and any such party directly or indirectly holding or exercising control or direction over 19.9% of the outstanding securities of such Issuer and (iii) that number of securities with a fair market value that constitutes 9.9% of the equity value of such Issuer for purposes of section 122.1 of the Tax Act (such lesser number being referred to as the “**Maximum Ownership Level**”). To the extent that the Maximum Ownership Level has been achieved in respect of the securities of any one Issuer and an excess of securities of such Issuer above the Maximum Ownership Level has been deposited and not rescinded, then the securities of such Issuer will be accepted by the Fund up to the Maximum Ownership Level and the balance will be re-credited to purchasers’ accounts through CDS. This Exchange Option does not constitute a takeover bid for any Issuer. See “Purchases of Securities — The Exchange Option”.

A prospective purchaser of Units who elected to pay for such Units by using the Exchange Option must have done so by means of a book-entry deposit through CDS. Prospective purchasers intending to use the Exchange Option must have deposited the securities of the Issuer with the Exchange Agent through CDS prior to 5:00 p.m. (Toronto time) on May 25, 2010. Such book-entry deposits must have been made by a CDS Participant, who may have had an earlier deadline for receiving instructions from its clients to deposit securities into the Exchange Option. Once submitted to the Exchange Agent through CDS, a deposit of Exchange Eligible Securities under the Exchange Option (including the transfer authorized thereby) is, subject to the completion of this Offering, irrevocable unless withdrawn as described under the heading “Purchases of Securities — Withdrawal of Exchange Option Elections”.

The Exchange Ratio will be determined by dividing the volume weighted average trading price of such securities on the TSX during the Pricing Period, as adjusted to reflect distributions declared by the applicable Issuer that will not be received by the Fund, by \$12.00. The Fund will issue a press release as soon as practicable after the close of business on June 7, 2010 announcing each Exchange Eligible Security, its CUSIP number, its ticker symbol, its volume weighted average trading price during the Pricing Period and the applicable Exchange Ratio. See “Purchases of Securities — Determination of Exchange

Ratios” and “Purchases of Securities — Delivery of Final Prospectus and Issuance of Press Release”.

Prospective purchasers under the Exchange Option will be entitled to rescind their purchase by providing a written notice of rescission to such prospective purchaser’s CDS Participant who effected the deposit at any time on or before the later of (i) midnight on the second Business Day after receipt or deemed receipt of this prospectus and any amendment and (ii) the close of business (Toronto time) on the second Business Day after the date on which the press release announcing the Exchange Ratios is issued. See “Purchases of Securities — Withdrawal of Exchange Option Elections”.

A purchaser who holds Exchange Eligible Securities of an Issuer as capital property may realize a capital gain or capital loss on the exchange of Exchange Eligible Securities of an Issuer for Units pursuant to the Exchange Option. See “Income Tax Considerations — The Exchange Option”.

**Manager:**

Harvest was founded by long term members of the investment management industry and is focused on developing income investment products. Harvest’s guiding principles are to seek to provide investment products that are clear and understandable, transparent in portfolio structure and seek to generate consistent income.

Harvest is also responsible for providing or arranging for the provision of administration services required by the Fund. See “Organization and Management Details of the Fund — Manager of the Fund”.

Harvest has taken the initiative in organizing the Fund and accordingly, may be a “Promoter” of the Fund within the meaning of applicable securities legislation. See “Organization and Management Details of the Fund — Promoter”.

**Investment Manager:**

The Manager has retained Avenue to provide investment management services to the Fund. Avenue was formed in 2002 and has focused on the private client market. Avenue was founded by three investment management professionals; Paul Harris, CFA, Paul Gardner, CFA and Bill Harris, CFA, each with over 20 years of experience, who have managed assets or businesses for leading financial institutions in Toronto, Montreal and New York.

Avenue describes its investment methodology as follows:

- finding well-managed issuers that have a competitive advantage in their market;
- determining if the issuer’s intrinsic value is at a discount to its market value;
- opportunistically buying when these discounts exist; and
- holding the position until the company no longer meets the valuation criteria.

Generally, an issuer’s securities will be reviewed to sell if and when:

- underlying fundamentals have changed;
- unfavourable changes in management occur;
- changes occur in the competitive or regulatory environment;
- intrinsic value is achieved; or
- risk/reward profile does not warrant increasing the investment.

As of March 31, 2010, Avenue had assets under management of approximately \$140 million and has focused its efforts on private investment management for high net worth clients. Avenue also manages the Harvest Banks & Buildings Income Fund.

**Agents:**

The Fund has engaged BMO Nesbitt Burns Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., Scotia Capital Inc., National Bank Financial Inc., HSBC Securities (Canada) Inc., Dundee Securities Corporation, Raymond James Ltd., Canaccord Genuity Corp., Macquarie Capital Markets (Canada) Ltd., Wellington West Capital Markets Inc., Desjardins Securities Inc. and Industrial Alliance Securities Inc. (collectively, the “Agents”) as agents to offer Units for sale to the public.

**Monthly Distributions:**

The Fund intends to make monthly cash distributions to Unitholders of record on the last Business Day of each month and pay such cash distributions on or before the 15th day of the following month. Beginning in June 2011, the Fund will annually determine and announce the Indicative Distribution Amount for the following year based upon the prevailing market conditions. The Indicative Distribution Amount will be \$0.07 per Trust Unit per month (\$0.84 per annum) for the first 12 months of the Fund. The initial cash distribution is anticipated to be payable on or before August 15<sup>th</sup>, 2010 to Unitholders of record on July 30, 2010.

It is anticipated that the changes to the taxation of income trusts beginning in 2011 will result in a decline in the amount of distributions paid by certain income trusts. The Investment Manager expects that given the type of income trusts the Fund will invest in that the initial anticipated yield on the Portfolio will be minimally impacted. The Fund may not pay distributions at the initial targeted level if returns on the income-generating securities or other returns to the Fund are not sufficient to maintain the initial anticipated yield on the Portfolio.

Assuming the gross proceeds of the Offering are \$100 million and fees and expenses are as described herein, the Portfolio, using the maximum amount of leverage permitted, would be required to generate an average annual total return of 8.15%, inclusive of dividend and interest income, in order for the Fund to achieve its initial Indicative Distribution Amount level. Based on the anticipated composition of the Portfolio it is expected that distributions on securities held in the Portfolio will be sufficient to fund the Fund’s distributions at the initially targeted level. If the return on the Portfolio (including net realized capital gains from the sale of securities in the Portfolio) is less

than the amount necessary to fund the monthly distributions, the Manager will return a portion of the capital of the Fund to Unitholders to ensure the distribution is paid and, accordingly, NAV per Trust Unit will be reduced. See “Distributions Policy”, “Investment Strategies” and “Risk Factors”. The amount of distributions may fluctuate and no assurance can be given that distributions will remain at the initial Indicative Distribution Amount level. Following the conversion of the Fund to an open-end fund on June 20, 2012, the Fund will not be able to use leverage to pursue its investment strategy and therefore the Fund may not pay a distribution at the initial Indicative Distribution Amount unless the Portfolio yields a higher return to the Fund.

If, in any year after such distributions, there would otherwise remain in the Fund additional net income or net realized capital gains, a special distribution of such portion of the net income and net realized capital gains as is necessary to ensure that the Fund will not be liable for income tax under the Tax Act will be automatically payable on the last day of that taxation year to Unitholders of record on that date.

There can be no assurance that the Fund will be able to achieve its monthly distribution objective or make payments on any Distribution Payment Date. Amounts distributed on the Trust Units that represent returns of capital are generally non-taxable to a Unitholder but reduce the Unitholder’s adjusted cost base of the Trust Units for tax purposes. See “Income Tax Considerations”.

**Redemption of Trust Units on the First NAV Redemption Date:**

Unitholders who wish to redeem their Trust Units on the First NAV Redemption Date will receive a redemption price per Trust Unit equal to NAV per Trust Unit as at the First NAV Redemption Date. On and after the Conversion Date, Unitholders may redeem Trust Units on any Business Day at their NAV per Trust Unit.

Prior to Conversion, Trust Units may be surrendered for redemption during the Notice Period by the registered Unitholder to the Registrar and Transfer Agent. Trust Units surrendered for redemption by a Unitholder during the Notice Period will be redeemed on the First NAV Redemption Date and the Unitholder will receive payment on or before the seventh Business Day following the First NAV Redemption Date.

**Use of Proceeds:**

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

	<u>Minimum Offering</u>	<u>Maximum Offering</u>
Gross proceeds to the Fund . . . . .	\$20,000,004	\$100,000,008
Agents’ fees . . . . .	\$ 1,050,000	\$ 5,250,000
Expenses of issue . . . . .	\$ 300,000	\$ 650,000
Net proceeds to the Fund . . . . .	<u>\$18,650,004</u>	<u>\$ 94,100,008</u>

**Conversion to Open-End Mutual Fund:**

The Manager will implement the Conversion on the Conversion Date. The Conversion may be implemented either by way of a conversion of the Fund to an open-ended mutual fund or by way of a tax-deferred

merger with an open-ended mutual fund managed by the Manager or an affiliate thereof (including a fund formed after the date of this prospectus). On and after the Conversion, the Trust Units will be redeemable at NAV per Trust Unit on a daily basis and the Fund will become subject to NI 81-102. See “Conversion of the Fund”.

**Organization and Management of the Harvest Canadian Income & Growth Fund:**

<b>Management of the Fund</b>	<b>Name and Municipality of Residence</b>	<b>Services Provided to Fund</b>
Trustee, Manager and Promoter	Harvest Portfolios Group Inc. 710 Dorval Drive Suite 200 Oakville, Ontario L6K 3V7	Manages the overall business of the Fund
Investment Manager	Avenue Investment Management Inc. 47 Colborne Street Suite 300, Toronto, Ontario M5E 1P8	The Manager has retained Avenue Investment Management Inc. to provide portfolio management services to the Fund.
Custodian and Valuation Agent	State Street Trust Company Canada Toronto, Ontario	Provides Custody and Valuation services to the Fund
Auditor	PricewaterhouseCoopers LLP Suite 3000, Box 82 Royal Trust Tower TD Centre Toronto, Ontario M5K 1G8	Provides audit services to the Fund
Registrar, Transfer Agent and Warrant Agent	Equity Transfer & Trust Company Toronto, Ontario	Maintains the security register and the register of transfers of securities

**Eligibility for Investment:**

Provided that the Fund qualifies and continues at all times to qualify as a mutual fund trust within the meaning of the Tax Act or that the Trust Units are listed on a designated stock exchange under the Tax Act (which includes the TSX), the Trust Units will be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered disability savings plans, registered education savings plans and tax-free savings accounts (each a “plan trust”). Provided that the Warrants are listed and continue at all times to be listed on a designated stock exchange for purposes of the Tax Act (which includes the TSX), or provided that at all times the Trust Units are qualified investments for plan trusts and the Fund is not, and deals at arm’s length with each person who is, an annuitant, a beneficiary, an employer or a subscriber under or a holder of a plan trust, the Warrants will be qualified investments for plan trusts. See “Income Tax Considerations — Status

of the Fund” and “Income Tax Considerations — Taxation of Registered Plans”.

Provided that the holder of a tax-free savings account does not hold a significant interest (as defined in the Tax Act) in the Fund or any person or partnership that does not deal at arm’s length with the Fund within the meaning of the Tax Act, and provided that such holder deals at arm’s length with the Fund within the meaning of the Tax Act, the Trust Units will not be prohibited investments for a trust governed by such tax-free savings account. See “Income Tax Considerations — Taxation of Registered Plans”.

**Income Tax Considerations:**

A purchaser of Units who disposes of securities of an Exchange Eligible Issuer held as capital property pursuant to the Exchange Option will realize a capital gain (or a capital loss) in the taxation year of the purchaser in which the disposition of such securities takes place to the extent that the proceeds of disposition for such securities, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the purchaser of such securities. For this purpose, the proceeds of disposition to the purchaser will equal the aggregate of the fair market value of the Units received and the amount of any cash received in lieu of fractional Units. The cost to a purchaser of Units so acquired will be equal to their fair market value at the time of exchange.

A Unitholder who is resident in Canada will generally be required to include in computing income for a taxation year that part of the net income of the Fund, including net taxable capital gains, if any, that is paid or becomes payable to the Unitholder by the Fund in the year (whether in cash or in Trust Units). To the extent that amounts payable to a Unitholder are designated by the Fund as taxable dividends from taxable Canadian corporations, the taxable portion of net realized capital gains and foreign source income, those amounts will retain their character and be treated as such in the hands of the Unitholder.

Distributions by the Fund to a Unitholder in excess of the Unitholder’s share of the Fund’s net income and net realized capital gains will generally not result in an income inclusion, but 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 such negative amount. A Unitholder who disposes of Trust Units held as capital property (on a redemption or otherwise) will realize a capital gain (or capital loss) to the extent that the proceeds of disposition exceed (or are less than) the aggregate adjusted cost base of the Trust Units disposed of and any reasonable costs of disposition.

A reasonable allocation of the purchase price of the Units between the Trust Units and the Warrants will be required for purposes of the Tax Act. The exercise of Warrants held as capital property will not constitute a disposition of property for purposes of the Tax Act and,

consequently, no capital gain or capital loss will be realized on the exercise of Warrants. Upon the disposition of a Warrant held as capital property by a Unitholder, the Unitholder will realize a capital gain (or capital loss) to the extent that the proceeds of disposition, net of reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Warrant to the Unitholder.

**Each investor should satisfy himself or herself as to the federal, provincial and territorial tax consequences of an investment in Trust Units and Warrants by obtaining advice from his or her tax advisor. See “Income Tax Considerations”.**

The conversion of the Fund from a closed-end mutual fund to an open-end mutual fund will not result in a disposition of Trust Units.

## **RISK FACTORS**

An investment in Units is subject to various risk factors, including the following risks which prospective purchasers should consider before purchasing Units.

1. possible loss of investment;
2. no guaranteed return;
3. there can be no assurance that the Fund will be able to achieve its investment objectives;
4. the NAV per Trust Unit will vary according to the value of the securities in which the Fund invests;
5. risks associated with the composition and concentration of the Portfolio;
6. risks associated with investments in equity securities;
7. risks relating to investments in utilities issuers;
8. risks relating to investments in real estate issuers;
9. risks relating to investments in technology issuers;
10. risks relating to investments in telecommunications issuers;
11. risks relating to investments in retail issuers;
12. the NAV of the Fund and the trading price of the Trust Units will be sensitive to interest rate fluctuations;
13. the Trust Units may trade in the market at a premium or a discount to the NAV per Trust Unit and there can be no guarantee that Trust Units will trade at a price equal to the NAV per Trust Unit;
14. risks relating to the use of leverage before the Conversion and the inability to use leverage after the Conversion;
15. risks relating to foreign market exposure;
16. risks relating to investing in emerging markets;
17. risks associated with foreign currency exposure;
18. recent global financial market developments;
19. reliance on management of the Fund;
20. nature of the Trust Units;
21. risks regarding the Warrants;
22. risks associated with redemptions;
23. the Fund's lack of operating history and the current absence of a public trading market for the Trust Units;
24. the Fund is not subject to regulation as a mutual fund or trust company;
25. the potential for conflicts of interest;
26. risks related to the Exchange Option;
27. risks relating to changes in legislation;

28. the scope of the Alternative Proposal has not been released and its scope is uncertain and may increase taxable distributions to Unitholders as well as additional risks associated with taxation of the Fund;
29. there can be no assurance that income tax laws and government incentive programs relating to 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 Fund and the Unitholders and/or the value of the Trust Units or the securities in which the Fund invests;
30. potential application of the SIFT Rules to the Fund; and
31. risks relating to taxation of the Fund and its Unitholders.  
See "Risk Factors".

## SUMMARY OF FEES AND EXPENSES PAYABLE BY THE FUND

The following table contains a summary of the fees and expenses payable by the Fund. All fees and expenses of the Fund will be paid in cash. For further particulars, see “Fees and Expenses”.

<u>Type of Charge</u>	<u>Amount and Description</u>
<b>Fees Payable to Agents:</b>	\$0.63 per Unit.
<b>Expenses of Issue:</b>	The Fund will pay the expenses incurred in connection with the Offering of Units by the Fund, which are estimated to be \$650,000, subject to a maximum of 1.5% of the gross proceeds of the Offering.
<b>Management Fee:</b>	An annual management fee (the “Management Fee”) of 1.25% of the NAV of the Fund at month end, paid monthly in arrears, plus an amount equal to the Servicing Fee (as defined hereinafter) plus applicable taxes, will be paid to the Manager. The Investment Manager will be remunerated by the Manager out of the Management Fee.
<b>Operating Expenses:</b>	The Fund will pay for all ordinary expenses incurred in connection with its operation and administration. It is expected that these expenses will include, without limitation: mailing and printing expenses for periodic reports to Unitholders and other Unitholder communications including marketing and advertising expenses; fees payable to the registrar and transfer agent; any reasonable out-of-pocket expenses incurred by the Manager or its agents in connection with their on-going obligations to the Fund; fees payable to the auditors and legal advisors of the Fund; fees and expenses of the Independent Review Committee; regulatory filing, stock exchange and licensing fees; and any expenditures incurred upon the termination of the Fund. The aggregate amount of these fees and expenses is estimated to be \$230,000 per annum.
<b>Servicing Fee:</b>	Prior to the Conversion Date, the Manager will pay to registered dealers a servicing fee (the “Servicing Fee”) equal to 0.40% annually of the NAV per Trust Unit for each Trust Unit held by clients of the registered dealers (calculated and paid at the end of each calendar quarter commencing on Closing, plus applicable taxes). On and after the Conversion Date, the Manager will pay the Servicing Fee equal to 1.00% annually of the NAV per Trust Unit for each Trust Unit held by clients of the registered dealers (calculated and paid at the end of each calendar quarter commencing on the Conversion Date, plus applicable taxes).
<b>Warrant Exercise Fee:</b>	As soon as practicable following the exercise of a Warrant, the Fund will pay a fee (the “Warrant Fee”) equal to \$0.12 per Warrant to the Agents and a fee equal to \$0.18 per Warrant to the dealer whose client is exercising the Warrant.

## THE FUND

### Overview of the Legal Structure of the Fund

The Fund is an investment fund established under the laws of the Province of Ontario pursuant to the Declaration of Trust dated May 31, 2010. See “Manager of the Fund”.

The principal office of the Fund and Harvest is located at 710 Dorval Drive, Suite 200, Oakville, Ontario L6K 3V7.

### Status of the Fund

The Fund is not considered to be a mutual fund under the securities legislation of the provinces and territories of Canada until the Conversion is implemented. Consequently, prior to the Conversion, the Fund is not subject to certain policies and regulations that apply to mutual funds under such legislation. Nevertheless, prior to the Conversion, the Fund will comply with all of the provisions of NI 81-102 except sections 2.6(a), 3.3, 10.3, 10.4 and 12.1. Following the Conversion, the Fund will be a mutual fund under applicable securities legislation and, subject to any exemptive relief that the Fund may obtain, will comply with all of the policies and regulations that apply to mutual funds under such legislation.

### INVESTMENTS OBJECTIVES

The Fund’s investment objectives are:

- (i) to provide Unitholders with monthly distributions (initially targeted to be \$0.07 per Trust Unit (\$0.84 per annum) representing an annual cash distribution of 7.0% based on the \$12.00 per Unit issue price); and
- (ii) to maximize long-term total return for Unitholders while reducing volatility.

### Rationale

The Manager and the Investment Manager believe that the Canadian economy is highly dynamic and progressive and as a result has outperformed other G7 economies which makes it an attractive market in which to invest relative to the global economy. However investors seeking to invest in the Canadian market may find that this market has relatively poor diversification due to its overweighting in the financials and resources sectors, which are both highly cyclical in nature. The Investment Manager intends to strategically reduce portfolio volatility by investing a large portion of the Fund in Canadian issuers that generate the majority of their income in less cyclical segments of the economy.

### INVESTMENTS STRATEGIES

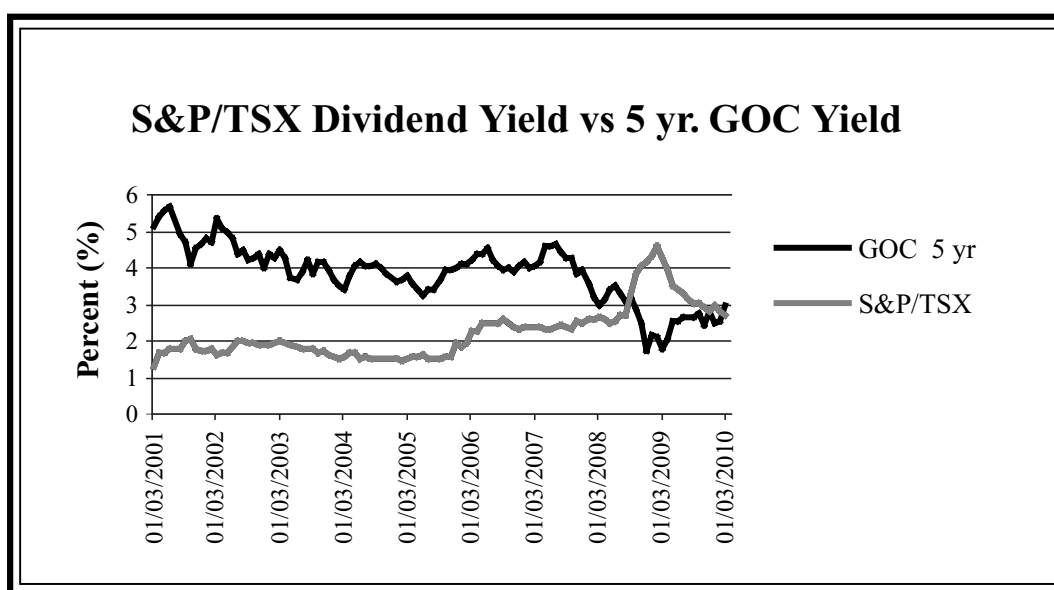
The Fund has been created to provide investors with income and the potential for capital appreciation over the course of the business cycle by investing the net proceeds of the Offering in an actively managed portfolio comprised primarily of dividend-paying securities and income trust units of publicly-traded utilities, industrial, communications, real estate and retail issuers domiciled in Canada. The Investment Manager will focus on the less cyclical segments of the Canadian equities market with the goal of reducing volatility by diversifying away from the main sectors (financials, energy and materials) that make up approximately 75% of the market capitalization on the TSX. The Investment Manager will invest primarily in issuers that it believes have: (i) proven long-term histories of earnings; (ii) established and experienced management; and (iii) business models that are not primarily dependent on commodity prices with a view to delivering:

1. Attractive income generation;
2. Opportunity for capital gains; and

3. Lower volatility relative to the overall S&P/TSX composite index.

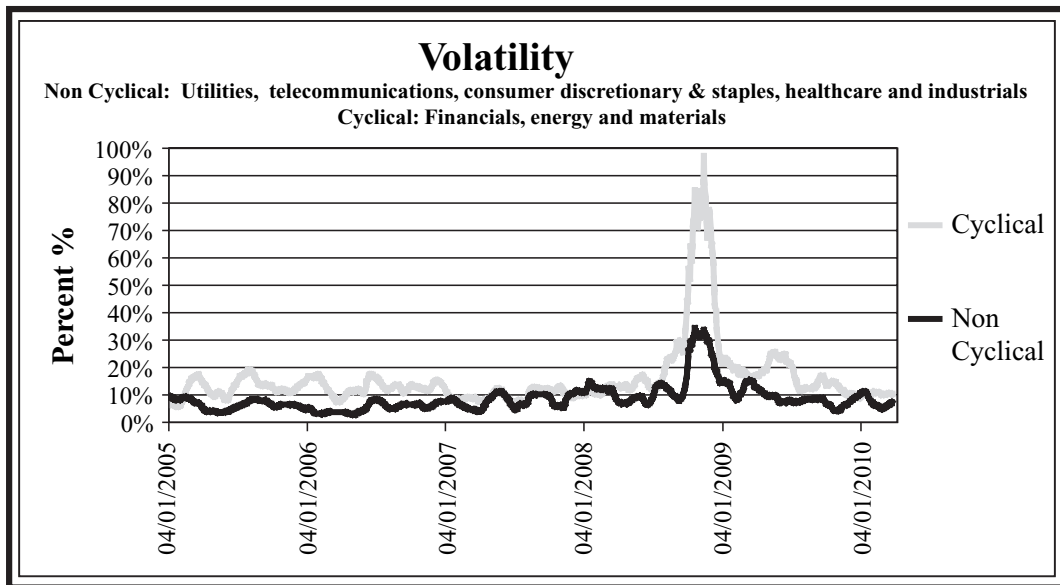
The Investment Manager intends to invest, on behalf of the Fund, in issuers that have had a history of consistent dividends or distributions. The Investment Manager will focus on leverage metrics such as debt/EBITDA, debt/total capitalization, capital ratios and upcoming debt maturity schedules in order to reduce the potential for debt distress. The Investment Manager will focus on free cash flow and free cash flow yield, earnings potential, and the investment's intrinsic value in order to assess dividend sustainability and growth in distributions. The Investment Manager also has the ability to invest up to 30% of the Fund in publicly-traded securities of issuers domiciled outside of Canada. In doing so, the Investment Manager will invest in issuers using the same analysis and leverage metrics as the domestic portion of the portfolio.

The Manager believes that in today's low interest rate environment, many investors are looking for yield. Government bond rates or GICs are not a suitable option for many yield-sensitive investors. As the following chart shows, the equity dividend yield has moved through the Government of Canada 5 year bond yield suggesting that generally there are opportunities to acquire higher yielding equity securities at historically low prices.



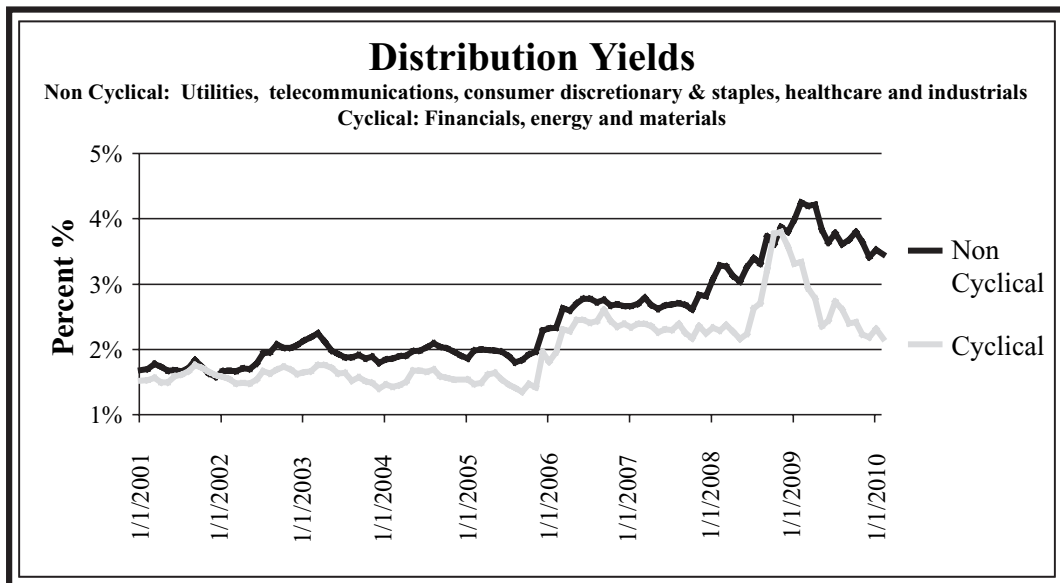
Source: Data sourced from Bloomberg as of April 6, 2010.

The Manager believes that investors generally face the challenge of obtaining a high distribution yield while seeking to lower the risk of an investment. In the Canadian market this is made more difficult by the cyclical nature associated with a large number of TSX listed issuers and sectors. Approximately 75% of the market capitalization of the TSX is comprised of issuers in the financials, energy and materials sectors. These sectors are highly cyclical and as a result these sectors over the long term experience greater volatility than those sectors that are less cyclical. As the following chart shows, the telecommunications, utilities, consumer discretionary & staples, healthcare and industrials sectors (non-cyclical sectors) have a much lower volatility than the financials, energy and materials sectors (cyclical sectors).



Source: Data sourced from RBC Quantitative Research Report as of April 1, 2010.

The advantage outlined above highlights the merits of one of the Fund's themes, that of investing in non-cyclical issuers. The following chart shows that the combined yield of the telecommunications, utilities, consumer discretionary & staples, healthcare and industrials sectors (non-cyclical) has exceeded financials, energy and materials sectors (cyclical sectors) for the period shown.

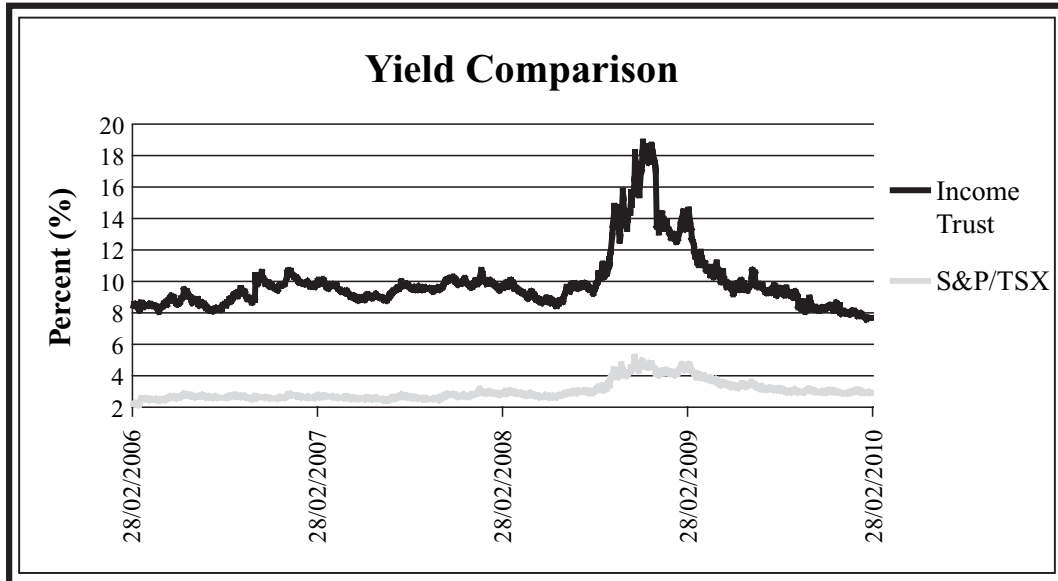


Source: Data sourced from RBC Quantitative Research Report as of April 1, 2010.

#### ***Income Trust Sector***

A significant portion of the issuers that make up the telecom, utilities, consumer discretionary & staples, health care and industrials sectors are income trust structures. Since October 31, 2006 when the Canadian Government decided to tax income trusts beginning in 2011, the sector has underperformed due to a general negative market sentiment and a decline in research coverage. There remain however, some

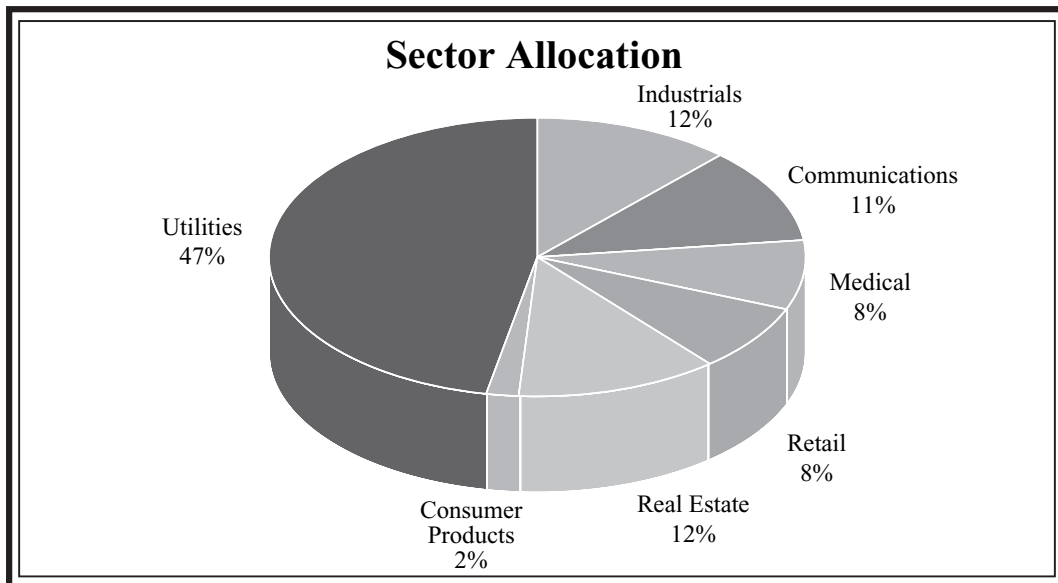
income trusts that continue to offer a high yield, sustainable cash flow and conservative balance sheets that the Investment Manager believes will be able to sustain ongoing distributions following conversion to a corporate structure. The Investment Manager believes that portions of the income trust market have been mispriced and that some of these issuers offer a very good risk/return dynamic requiring consideration as an investment opportunity.

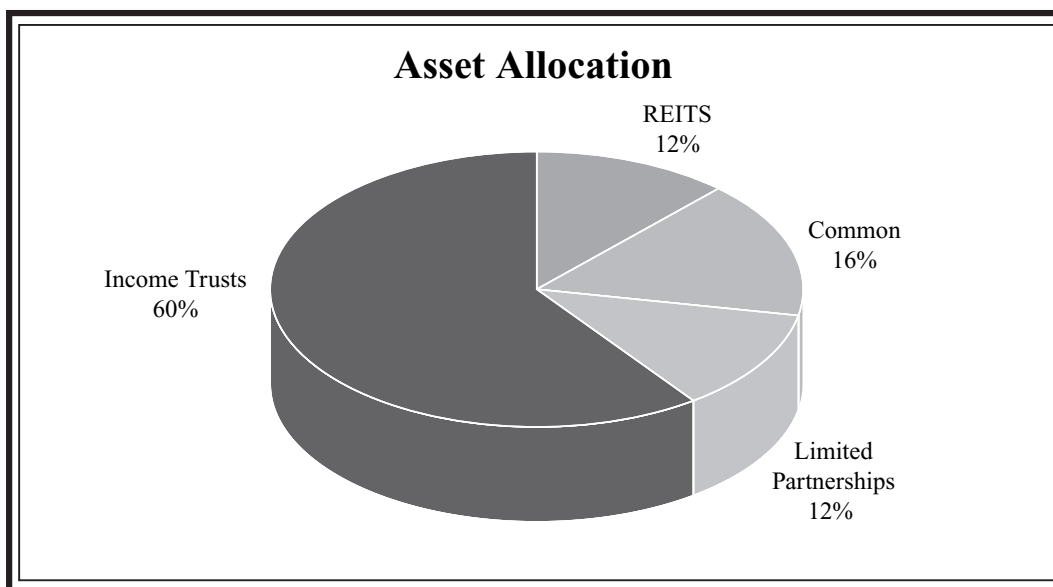


Source: Data sourced from Bloomberg as of April 6, 2010.

### The Indicative Portfolio

If the Fund had been in existence on May 27, 2010, the Portfolio would have been diversified by the market sector and type of security as follows:





If the Fund had been in existence on May 27, 2010, the Portfolio would have included the following securities:

#### Utilities Issuers

<u>Issuer</u>	<u>Stock Symbol</u>	<u>Weight (%)</u>	<u>Dividend Yield<sup>(1)</sup> (%)</u>	<u>Equity Market Cap (\$M)</u>
Fort Chicago Energy Partners L.P. . . . . .	FCE-U	5.00	10.1	1,393
Keyera Facilities Income Fund . . . . .	KEY-U	2.00	7.0	1,722
Pembina Pipeline Income Fund . . . . .	PIF-U	5.00	9.0	2,798
Boralex Power Income Fund . . . . .	BPT-U	5.00	8.6	275
Brookfield Infrastructure Partners L.P. . . . .	BIP-U	0.60	7.2 <sup>(3)</sup>	963
AltaGas Income Trust . . . . .	ALA-U	6.00	12.7	1,376
Westshore Terminals Income Fund . . . . .	WTE-U	5.00	9.7	1,281
Superior Plus Corp. . . . .	SPB	6.00	12.6	1,350
Capital Power Income L.P. . . . .	CPA-U	5.00	11.0	873
Just Energy Income Fund . . . . .	JE-U	2.50	9.8	1,660
Atlantic Power Corporation . . . . .	ATP	3.00	8.9	741
Northland Power Income Fund . . . . .	NPI-U	2.50	8.5	912

#### Industrial Issuers

<u>Issuer</u>	<u>Stock Symbol</u>	<u>Weight (%)</u>	<u>Dividend Yield<sup>(1)</sup> (%)</u>	<u>Equity Market Cap (\$M)</u>
Rogers Sugar Income Fund . . . . .	RSI-U	5.00	9.6	416
Bird Construction Income Fund . . . . .	BDT-U	0.60	5.7	445
Davis & Henderson Income Fund . . . . .	DHF-U	5.00	11.1	884
K-Bro Linen Income Fund . . . . .	KBL-U	1.00	7.0	100

## Communications Issuers

<u>Issuer</u>	<u>Stock Symbol</u>	<u>Weight (%)</u>	<u>Dividend Yield<sup>(1)</sup> (%)</u>	<u>Equity Market Cap (\$M)</u>
Bell Aliant Regional Communications Income Fund . . . . .	BA-U	6.00	11.0	3,365
BCE Inc. . . . .	BCE	0.60	5.7	23,279

## Health Care Issuers

<u>Issuer</u>	<u>Stock Symbol</u>	<u>Weight (%)</u>	<u>Dividend Yield<sup>(1)</sup> (%)</u>	<u>Equity Market Cap (\$M)</u>
Medical Facilities Corporation . . . . .	DR-U	6.00	11.8	263
CML Healthcare Income Fund . . . . .	CLC-U	2.00	9.8	975

## Retail Issuers

<u>Issuer</u>	<u>Stock Symbol</u>	<u>Weight (%)</u>	<u>Dividend Yield<sup>(1)</sup> (%)</u>	<u>Equity Market Cap (\$M)</u>
North West Company Fund . . . . .	NWF-U	2.00	7.3	898
Liquor Stores Income Fund . . . . .	LIQ-U	5.00	10.7	282
Cineplex Galaxy Income Fund . . . . .	CGX-U	1.20	6.2	1,149

## Real Estate Issuers

<u>Issuer</u>	<u>Stock Symbol</u>	<u>Weight (%)</u>	<u>Dividend Yield<sup>(1)</sup> (%)</u>	<u>Equity Market Cap (\$M)</u>
Artis Real Estate Income Trust . . . . .	AX-U	4.00	9.6	547
Whiterock Real Estate Income Trust . . . . .	WRK-U	6.00	11.5	199
Extencicare Real Estate Income Trust . . . . .	EXE-U	2.00	9.3	746

## International Issuers

<u>Issuer</u>	<u>Stock Symbol</u>	<u>Weight (%)</u>	<u>Dividend Yield<sup>(1)(3)</sup> (%)</u>	<u>Equity Market Cap (\$M)</u>
Vivendi . . . . .	VIV FP	2.00	8.1	21,169
Altria Group Inc. . . . .	MO	2.00	6.8	42,751
Telofonica SA . . . . .	TEF	2.00	8.8	85,235
		<u>100.00</u>	<u>10.09</u>	<u>6,829<sup>(2)</sup></u>

Source: Data sourced from Bloomberg as of May 27, 2010

Notes:

- (1) "Dividend Yield" is determined by annualizing the most recent distribution or dividend and dividing by the closing price on May 27, 2010.
- (2) Average equity market capitalization (\$M).
- (3) The Dividend Yield is net of foreign withholding tax.

**The information contained in the above section is historical and is not intended to be, nor should it be construed to be, an indication as to the future trading levels of the securities comprising the Indicative Portfolio.**

**The Portfolio may or may not include issuers from the foregoing list and may include securities of issuers that are not listed above. The Investment Manager will actively manage the Portfolio to seek to meet the Fund's investment objectives and therefore the composition of the Portfolio will vary from time to time based on the Investment Manager's assessment of market conditions.**

### **Foreign Currency Hedging**

Although the Fund will predominantly invest in Canadian securities, the Fund may also be exposed to a limited number of foreign currencies. The Investment Manager will take currency exposure into account in managing the Portfolio and does not initially intend to hedge the Fund's currency exposure but from time to time may hedge up to 100% of the Portfolio's non-Canadian currency exposure.

### **Borrowing**

Prior to Conversion, the Fund is authorized to borrow for the purpose of making investments in accordance with its investment objectives and restrictions, and to pledge its assets to secure the borrowings. After Closing, the Fund intends to enter into a Loan Facility with one or more Canadian chartered banks. The Loan Facility will permit the Fund to borrow an amount not exceeding 20% of the value of the total assets of the Fund (25% of NAV) at the time of draw down. Accordingly, the maximum amount of leverage that the Fund could have, at the time of borrowing, is 1.25:1. The interest rate, fees and expenses under the Loan Facility are expected to be typical of similar credit facilities. Once the net proceeds from the Offering have been fully invested, the Fund expects to utilize the Loan Facility from time to time. Prior to the Conversion Date, all amounts outstanding under the Loan Facility, including all interest accrued thereon, will be repaid in full.

## **OVERVIEW OF THE SECTORS THAT THE FUND INVESTS IN**

### *Telecommunications Sector*

The telecommunication sector is comprised of issuers that provide a full range of communication services to residential and business customers in Canada. These services include local, long distance and wireless phone services, high speed and wireless Internet access, IP-broadband services, value-added business solutions and direct-to-home satellite and VDSL television services. The Canadian telecommunications industry has provided Canadians with one of the most advanced networks in the world. A majority of Canadian households have internet and wireless communication facilities.

### *Retail Sector*

The Canadian retail industry is primarily engaged in selling consumer goods and related services through stores to the general public. The retail sector includes issuers that retail, wholesale and distribute food across Canada. It also includes issuers involved with the sale and distribution of non-staple goods such as clothing and appliances. Large retail firms tend to operate their own warehouse facilities and, in some instances, have manufacturing operations for the production of private-label goods. Other operations may include franchisee operated stores and cash and carry outlets.

### *Canadian Real Estate Market Sector*

The Canadian real estate market includes commercial and residential real estate and is made up primarily of REITs, fixed income, convertible debt, and trust units that are issued by such issuers. The commercial real estate sector is comprised of properties designed for specific business purposes that can be

broadly classified as properties for office, retail and diversified use (including industrial and storage). Residential real estate is property used for general living purposes and is primarily focused on multi-family residences.

Well-located properties with strong real estate fundamentals have historically appreciated in value over time, which is one of the primary benefits of real estate ownership. Today's low interest rate environment enables real estate owners to obtain historically low mortgage rate financing when conservative loan-to-value ratios are employed. This low interest rate mortgage financing, when combined with the acquisition of properties at capitalization rates above the mortgage interest rate, provides investors in commercial real estate assets with attractive levered yields not available in many other investment alternatives.

#### *Industrials Sector*

This is a very diversified sector that includes several different industries from construction and infrastructure development issuers to aviation and auto part makers. Issuers in the industrials sector generally provide services to private and public sector clients. These issuers conduct operations throughout Canada and internationally and will generally benefit from a global economic recovery.

#### *Utilities Sector*

The utilities sector includes issuers that generate, transmit, and distribute electric power to consumers in Canada. These issuers can own and operate power projects both in Canada and internationally. These issuers also gather, store, transmit, and distribute natural gas and oil and are therefore less affected by changes in commodity prices than companies involved with the discovery and extraction of oil and natural gas.

### **INVESTMENT RESTRICTIONS**

The Declaration of Trust contains investment restrictions to the effect that, on and after the initial investment of the assets of and, prior to the Conversion Date, the Fund may not:

- (a) purchase any security issued by any issuer (other than short term debt securities issued or guaranteed by the Government of Canada or any Canadian province or municipality) if as a result more than 10% of the Fund's total assets would consist of securities issued by such issuer;
- (b) purchase securities such that less than 70% of the total value of the Portfolio is represented by issuers with a head office located in Canada;
- (c) borrow pursuant to the Loan Facility if, immediately after such borrowing, the aggregate amount borrowed would exceed 20% of the value of the total assets of the Fund (25% of NAV). Other than borrowings under the Loan Facility and short-term credits necessary for settlement of securities transactions, which are not considered borrowing, the Fund will not engage in borrowing. The Fund will not borrow under the Loan Facility (except as permitted under NI 81-102) following the Conversion;
- (d) make loans or guarantee obligations, except that the Fund may purchase and hold debt obligations (including bonds, debentures or other obligations and certificates of deposit, bankers' acceptances and fixed time deposits) in accordance with its investment objectives;
- (e) own more than 10% of the equity value of an issuer for purposes of the SIFT Rules or purchase the securities of an issuer for the purpose of exercising control over management of that issuer;
- (f) invest in any securities of an entity that would be a foreign affiliate of the Fund within the meaning of the Tax Act;

- (g) the Fund will not acquire securities which represent illiquid assets (as defined by National Instrument 81-102) if, immediately after the purchase, more than 10% of the Fund's total assets, taken at the time of acquisition, would consist of illiquid assets;
- (h) the Fund will not write call or put options;
- (i) the Fund will not invest in issuers domiciled outside of industrialized economies except that up to 10% of the net assets of the Fund may be invested in the securities of issuers domiciled in a country included in the MSCI Emerging Markets Index;
- (j) the Fund will not sell securities short or maintain short positions;
- (k) the Fund will not invest for the purposes of exercising control over management of the issuer of any Portfolio Securities;
- (l) the Fund will not use derivatives except as permitted by National Instrument 81-102 (as if the Fund was subject to 81-102);
- (m) hold securities of any non-resident corporation or trust or other entity (or a partnership which holds such securities) if the Fund (or the partnership) would be required to include any amount in income in respect of such securities pursuant to either section 94.1 or paragraph 94(1)(d) of the Tax Act, nor invest in any interest in a non-resident trust other than an "exempt foreign trust" as defined in proposed section 94 of the Tax Act, as set forth in the proposed amendments to the Tax Act dealing with foreign investment entities and non-resident trusts set out in the Notice of Ways and Means Motion to Amend the Tax Act dated March 4, 2010 (or amendments to such proposals, provisions as enacted into law or successor provisions thereto);
- (n) invest in any security that is a tax shelter investment within the meaning of the Tax Act;
- (o) lend Portfolio assets except as permitted by NI 81-102;
- (p) act as an underwriter except to the extent that the Fund may be deemed to be an underwriter in connection with the sale of securities in its Portfolio;
- (q) make any investment or conduct any activity that would result in the Fund failing to qualify as a "unit trust" or a "mutual fund trust" within the meaning of the Tax Act; and
- (r) make or hold any investments that would result in the Fund itself being subject to the tax for SIFT trusts as provided for in the SIFT Rules, and in particular the fair market value of "Canadian real, immovable or resource property" held by the Fund will never exceed 50% of the "equity value" of the Fund, as those terms are defined in the SIFT Rules.

If a percentage restriction on investment or use of assets set forth above is adhered to at the time of the transaction, later changes to the market value of the investment or the total assets of the Fund will not be considered a violation of the restriction (except for the restrictions in paragraph (r)). Investment restrictions that do not provide for a percentage restriction must be adhered to at all times. If the Fund receives from an issuer subscription rights to purchase securities of that issuer, and if the Fund exercises such subscription rights at a time when the Fund's Portfolio holdings of securities of that issuer would otherwise exceed the limits set forth above, it will not constitute a violation if, prior to receipt of securities upon exercise of such rights, the Fund has sold at least as many securities of the same class and value as would result in the restriction being complied with.

The foregoing investment restrictions may not be changed without the approval of the Unitholders, by a resolution passed by two-thirds of the votes cast at a meeting of Unitholders called for such purpose, unless such changes are necessary to ensure compliance with all applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time. See "Unitholder Matters".

On or after the Conversion Date, the Fund will be subject to certain standard investment restrictions and practices contained in NI 81-102 and such other investment restrictions as the Trustee may determine, in its sole discretion, from time to time.

## **FEES AND EXPENSES**

### **Initial Expenses**

The expenses of the Offering (including the costs of creating the Fund, the costs of printing and preparing this prospectus, legal expenses of the Fund, marketing expenses and legal and other out of pocket expenses incurred by the Agents and certain other expenses) will, together with the Agents' fees, be paid from the gross proceeds of the Offering. The Offering expenses are estimated to be \$650,000. The Manager has agreed to pay all expenses incurred in connection with the Offering, other than the Agents' fees, that exceed 1.5% of the gross proceeds of the Offering.

### **Management Fee**

Pursuant to the terms of the Declaration of Trust, Harvest is entitled to a fee at an annual rate of 1.25% of NAV, plus an amount equal to the Servicing Fee (as defined below) plus applicable taxes. Fees payable to Harvest will be calculated and payable monthly based on the average NAV of the Fund calculated at each Valuation Time during that month. The management fee will be paid in cash.

### **Ongoing Fees and Expenses**

The Fund will pay for all ordinary expenses incurred in connection with the operation and administration of the Fund. All fees and expenses of the Fund will be paid in cash. It is expected that these expenses will include, without limitation: (a) mailing and printing expenses for periodic reports to Unitholders; (b) fees payable to the Trustee for acting as trustee (except when the Manager is the Trustee); (c) fees payable to the Registrar and Transfer Agent; (d) fees payable to the Custodian for acting as custodian of the assets of the Fund; (e) independent review committee member fees and expenses in connection with the independent review committee; (f) banking fees and interest with respect to any borrowing; (g) fees payable to the auditors and legal advisors of the Fund; (h) regulatory filing, stock exchange and licensing fees; (i) any expenses in connection with the Conversion; and (j) expenditures incurred upon the termination of the Fund. Such expenses will also include expenses of any action, suit or other proceedings in which or in relation to which Harvest, or the Trustee, is entitled to indemnity by the Fund. See "Organization and Management Details of the Fund — Manager of the Fund". The aggregate annual amount of these fees and expenses is estimated to be \$230,000, excluding any banking fees and interest which will increase with the Fund's utilization of any borrowing. The Fund will also be responsible for all commissions and other costs of portfolio transactions and any extraordinary expenses of the Fund which may be incurred from time to time.

### **Servicing Fee**

Prior to the Conversion Date, the Manager will pay to registered dealers a servicing fee (the "Servicing Fee") equal to 0.40% annually of the NAV per Trust Unit for each Trust Unit held by clients of the registered dealers (calculated and paid at the end of each calendar quarter commencing on Closing, plus applicable taxes). On and after the Conversion Date, the Manager will pay the Servicing Fee equal to 1.00% annually of the NAV per Trust Unit for each Trust Unit held by clients of the registered dealers (calculated and paid at the end of each calendar quarter commencing on the Conversion Date, plus applicable taxes).

**Warrant Exercise Fee**

As soon as practicable following the exercise of a Warrant, the Fund will pay a fee equal to \$0.12 per Warrant to the Agents and a fee equal to \$0.18 per Warrant to the dealer whose client is exercising the Warrant.

**RISK FACTORS**

The following are certain considerations relating to an investment in Units which prospective investors should consider before purchasing such securities.

***Loss of Investment***

An investment in the Fund is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment and who can withstand the effect of no distribution being paid in any period.

***No Guaranteed Return***

There is no guarantee that an investment in the Fund will earn any positive return in the short term or long term. The Indicative Distribution Amount from year to year may be significantly less than the initial targeted Indicative Distribution Amount. The Manager, on behalf of the Fund, may at any time re-evaluate the Indicative Distribution Amount.

***No Assurances of Achieving Investment Objectives***

There is no assurance that the Fund will be able to achieve its investment objectives. The funds available for distribution to Unitholders will vary according to, among other things, the levels of dividends or distributions paid on the securities in the Portfolio and the value of the securities in the Portfolio. There is no assurance that the Portfolio will earn any return. No assurance can be given as to the amount of distributions in future years. No assurance can be given that the NAV per Trust Unit will appreciate. It is possible that, due to declines in the market value of the securities in the Portfolio, the Fund will have insufficient Portfolio assets to achieve its investment objectives.

***Performance of the Portfolio***

The NAV per Trust Unit will vary as the fair value of the securities in the Portfolio varies. The Fund has no control over the factors that affect the fair value of the securities in the Portfolio, including factors that affect the equity markets generally, such as general economic and political conditions and fluctuations in interest rates, and factors unique to each issuer included in the Portfolio, such as changes in management, changes in strategic direction, achievement of strategic goals, mergers, acquisitions and divestitures, changes in distribution policies and other events that may affect the value of its securities. Some global economies are experiencing significantly diminished growth and recessions. No assurance can be given that diminished availability of credit and significant equity devaluations will not adversely affect the markets into which the Fund will invest in.

***Composition of Portfolio***

The composition of the Portfolio taken as a whole may vary widely from time to time but will be concentrated by geography and may be concentrated by type of security, commodity or industry. Therefore, the Portfolio may be considered less diversified.

### ***Equity Risk***

Equities such as common shares or units of income trusts give the holder part ownership in the issuer. The value of an equity security changes with the fortunes of the issuer that issued it. General market conditions and the health of the economy as a whole can also affect equity prices. Equity related securities that provide indirect exposure to the equity securities of an issuer, such as convertible debentures, can also be affected by equity risk. Present economic conditions may adversely affect issuers and the pricing of their securities. Further continued volatility or illiquidity could impair materially the profitability of these issuers.

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

As the Fund is targeting monthly distributions representing a yield on the Offering Price of the Units of 7.0% per annum, the trading price of the Trust Units may be affected by the level of interest rates prevailing from time to time. In addition, any decrease in the NAV resulting from an increase in interest rates may also negatively affect the trading price of the Trust Units. Changes in interest rates may also adversely affect the business of the issuers in which the Fund invests or the trading price of the securities of such issuers.

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

Trust Units of certain closed-end funds in Canada have traded at a discount from their net asset values. This risk associated with Trust Units of a closed-end fund is a risk separate and distinct from the risk that the Fund's NAV may decrease. The Fund cannot predict whether the Trust Units will trade at a discount from, a premium to, or at the NAV per Trust Unit.

### ***Utility Investments***

The value of investments in utility issuers (and the dividends they pay) can be significantly affected by changes in supply of, or demand for, various natural resources, changes in energy prices, international political and economic developments, energy conservation, the success of exploration projects, changes in commodity prices, and tax and other government regulations.

### ***Real Estate Investments***

Investments in real estate issuers are subject to the general risks associated with real property investments. Real property investments are affected by various factors including changes in general economic conditions (such as the availability of long term mortgage funds) and in local conditions (such as oversupply of space or a reduction in demand for real estate in the area), the attractiveness of the properties to tenants, competition from other available space and various other factors.

The value of real property and any improvements thereto may also depend on the credit and financial stability of the tenants. A real estate issuer's income and funds available for distributions to its securityholders would be adversely affected if a significant number of tenants were to become unable to meet their obligations to the real estate issuer or if the real estate issuer were unable to lease a significant amount of available space in its properties on economically favourable lease terms.

### ***Technology Investments***

Technology issuers face intense competition, both domestically and internationally, which may have an adverse affect on profit margins. Technology issuers may have limited product lines, markets, financial resources or personnel. The products of technology companies may face product obsolescence due to rapid technological developments and frequent new product introduction, unpredictable changes in growth rates and competition for the services of qualified personnel. Issuers in the technology sector are heavily

dependent on patent and intellectual property rights. The loss or impairment of these rights may adversely affect the profitability of these issuers. The technology sector may also be adversely affected by changes or trends in commodity prices, which may be influenced or characterized by unpredictable factors.

#### ***Telecommunications Investments***

There are a number of risk factors associated with the investment by the Fund in the telecommunication sector. These include the introduction of alternative technologies, shortage in skilled workforce, increase in cost of workforce and operating costs, disruption in continued supply of electricity, network disruption in respect of the provision of telecommunication services, adverse changes in general economic, business and credit conditions and adverse changes in government regulations and permits. As a result of these certain general risks inherent to the telecommunication sector, no assurance can be given that the operation of issuers within the sector will not be adversely affected by these risks should they eventuate.

#### ***Retail Investments***

The retail industry is influenced by a number of external factors which affect customer demand, and over which retail issuers exercise no influence, including but not limited to, general economic growth, inflation, interest rates, personal debt levels, unemployment rates and levels of personal disposable income. In an economic downturn, discounting by retail issuers may result in more out-shopping by consumers from the retail market which may negatively impact sales and gross profit. Changes in inflation rate are unpredictable and may impact the cost of merchandise and the prices charged to consumers which in turn could negatively impact sales and net earnings. A significant and prolonged decline in consumer spending could have an adverse effect on the financial condition and results of a retail issuer's operations.

#### ***Foreign Currency Exposure***

The Portfolio may at times consist of securities denominated in foreign currencies, and, therefore, the NAV, the trading price and the value of the dividends and other distributions received by the Fund will be affected by fluctuations in the value of the other foreign currencies relative to the Canadian dollar. The Fund will not be hedged and accordingly, no assurance can be given that the Fund will not be adversely impacted by changes in foreign exchange rates. As the distributions received on securities held in the Portfolio may include foreign currencies, the distributable cash, when measured in Canadian dollars, may be affected by changes in the value of these currencies relative to the Canadian dollar.

#### ***Foreign Market Exposure***

The Fund's investments will, at any time, include securities of issuers established in jurisdictions outside Canada and the United States. Although most of such issuers will be subject to uniform accounting, auditing and financial reporting standards comparable to those applicable to Canadian and U.S. companies, some issuers may not be subject to such standards and, as a result, there may be less publicly available information about such issuers than a Canadian or U.S. company. Volume and liquidity in some foreign markets may be less than in Canada and the United States and, at times, volatility of price may be greater than in Canada or the United States. As a result, the price of such securities may be affected by conditions in the market of the jurisdiction in which the issuer is located or its securities are traded. Investments in foreign markets carry the potential exposure to the risk of political upheaval, acts of terrorism and war, all of which could have an adverse impact on the value of such securities.

#### ***Risks Relating to Investing in Emerging Markets***

The Fund's investments may, at any time, include securities of issuers that are domiciled in countries that are located in emerging markets. Because of the special risks associated with investing in emerging

markets, the Fund investing in such securities should be considered speculative. Investors in the Fund are advised to consider carefully the special risks of investing in emerging market securities. Economies in emerging markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries in which they trade.

The risk also exists that an emergency situation may arise in one or more developing markets as a result of which trading of securities may cease or may be substantially curtailed and prices for the Fund's securities in such markets may not be readily available.

Investors should note that changes in the political climate in emerging markets may result in significant shifts in the attitude to the taxation of foreign investors. Such changes may result in changes to legislation, the interpretation of legislation, or the granting of foreign investors the benefit of tax exemptions or international tax treaties. The effect of such changes can be retrospective and can (if they occur) have an adverse impact on the investment return of Unitholders in the Fund so affected.

Emerging markets can be significantly more volatile than developed markets, so that the price of shares may be subject to large fluctuations.

### ***Recent Global Financial Market Developments***

Global financial markets have experienced significant volatility during recent months. This has been, in part, the result of the revaluation of assets on the balance sheets of international financial institutions and related securities. This has contributed to a reduction in liquidity among financial institutions and has reduced the availability of credit to those institutions and to the issuers who borrow from them. While central banks as well as governments are attempting to restore liquidity to the global economies, no assurance can be given that the combined impact of the significant revaluations and constraints on the availability of credit will not materially and adversely affect economies around the world in the near to medium term. No assurance can be given that this stimulus will continue or if it is continued, that it will be successful or that these economies won't be adversely affected by the inflationary pressures resulting from such stimulus, or central banks' efforts to slow inflation. Some of these economies have experienced significantly diminished growth and others have experienced or are experiencing a recession. These market conditions and unexpected volatility or illiquidity in capital markets may also adversely affect the prospects of the Fund and the value of the such issuers in the Portfolio.

### ***Reliance on Management***

Unitholders will be dependent on the management of the Manager and Investment Manager. Investors who are not willing to rely on the management of the Manager and Investment Manager should not invest in the Units, Trust Units or Warrants.

### ***Nature of Trust Units***

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

### ***Warrants***

If a Unitholder does not exercise, or sells, the Warrants, then the value of the Trust Units held by that Unitholder may be diluted as a result of the exercise of Warrants by others.

### ***Redemptions***

If holders of a substantial number of Trust Units exercise their redemption right, the number of Trust Units outstanding and the NAV of the Fund could be significantly reduced with the effect of increasing the management expense ratio of the Fund.

### ***Operating History***

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

### ***Conversion***

After Conversion, Unitholders will not have the right to approve changes to the investment strategy of the Fund.

There may be a time between the de-listing of the Trust Units on the TSX and the Conversion Date where Unitholders may not be able to sell or redeem their Trust Units.

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

The Manager and the Investment Manager, their respective directors and officers and their respective affiliates and associates may engage in the promotion, management or investment management of other accounts, funds or trusts which invest primarily in the securities held by the Fund. Although officers, directors and professional staff of the Manager and the Investment Manager will devote as much time to the Fund as is deemed appropriate to perform its duties, the staff of the Manager and the Investment Manager may have conflicts in allocating their time and services among the Fund and the other funds managed by the Manager and the Investment Manager.

### ***Exchange Option***

A significant portion of the proceeds realized pursuant to the Offering may be by way of deposits under the Exchange Option. Accordingly, the Portfolio may be initially exposed to the value of the securities of a limited number of Issuers. To achieve the desired Portfolio, the Manager may be required to dispose of securities at prices below the prices at which they are then trading and perhaps at prices which are below what the Manager believes they are worth. This may have a negative impact on NAV during the period in which the Portfolio is being established. No assurance can be given that this will not adversely and materially affect the performance of the Fund in the near term. Additionally, the price of these securities on the Closing Date may be higher or lower than the price that was used to calculate the Exchange Ratios for such securities. Notwithstanding any such change, the Exchange Ratios will not, unless otherwise disclosed, change from the date on which they are established and, accordingly, if the price of an Exchange Eligible Security on the Closing Date is less than the price used to calculate the Exchange Ratio, the Fund will in effect pay more to acquire the Exchange Eligible Securities than it would if it had acquired the same security in the market on the Closing Date.

### ***Changes in Legislation***

There can be no assurance that income tax, securities and other laws will not be changed in a manner which adversely affects the distributions received by the Fund or by the Unitholders.

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

On October 31, 2003 the Department of Finance released a tax proposal (the “October 2003 Proposals”) relating to the deductibility of losses under the Tax Act. Under the October 2003 Proposals, a

taxpayer will be considered to have a loss from a business or property for a taxation year only if, in that year, it is reasonable to assume that the taxpayer will realize a cumulative profit from the business or property during the time that the taxpayer has carried on, or can reasonably be expected to carry on, the business or has held, or can reasonably be expected to hold, the property. Profit, for this purpose, does not include capital gains or capital losses. If the October 2003 Proposals were to apply to the Fund, certain losses of the Fund may be limited with after-tax returns to Unitholders reduced as a result. On February 23, 2005, the Minister of Finance (Canada) announced that an alternative proposal to replace the October 2003 Proposals would be released (the "Alternative Proposal"). To date, the Alternative Proposal has not been released and no assurance can be given that it will not adversely affect the Fund.

If certain tax proposals released on September 16, 2004 are enacted as proposed (the "September 16th Tax Proposals"), the Fund would cease to qualify as a mutual fund trust for purposes of the Tax Act if, at any time after 2004, the fair market value of all Trust Units held by non-residents, or partnerships that are not Canadian partnerships, or any combination of the foregoing, is more than 50% of the fair market value of all issued and outstanding Trust Units unless not more than 10% (based on fair market value) of the Fund's property is at any time "taxable Canadian property" within the meaning of the Tax Act and certain other types of specified property. Restrictions on the ownership of Units are intended to limit the number of Trust Units held by non-residents such that non-residents, partnerships that are not Canadian partnerships, or any combination of the foregoing, may not own Units representing more than 50% of the fair market value of all Trust Units. The September 16th Tax Proposals were not included in Bill C-52, which received Royal Assent on June 22, 2007. Pursuant to an amendment to the Tax Act, the Fund would be deemed not to be a mutual fund trust after any time when it can reasonably be considered that the Fund was established or is maintained primarily for the benefit of non-resident persons unless at that time, all or substantially all of its property is property other than taxable Canadian property. It is not clear whether this amendment supersedes the September 16th Tax Proposals.

If the Fund ceases to qualify as a mutual fund trust under the Tax Act, the income tax considerations described under the heading "Income Tax Considerations" would be materially and adversely different in certain respects. There can be no assurance that Canadian federal income tax laws and the administrative policies and assessing practices of the CRA (as defined hereinafter) respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the Unitholders.

The CRA has expressed a view that, in certain circumstances, the deductibility of interest on money borrowed to invest in an income trust may be reduced on a pro rata basis in respect of distributions from the income trust that are a return of capital and which are not reinvested for an income earning purpose. Counsel are of the view that, while the ability to deduct interest depends on the facts, based on the jurisprudence and the anticipated nature of income trust distributions, the CRA's view should not affect the Fund's ability to deduct interest on money borrowed to acquire units of income trusts included in the Portfolio securities. If the CRA's view were to apply to the Fund, part of the interest payable by the Fund in connection with money borrowed to acquire certain Portfolio securities could be non-deductible, increasing the net income of the Fund for tax purposes and the taxable component of distributions to Unitholders.

In determining its income for tax purposes, the Fund will treat gains or losses on the disposition of securities in the Portfolio as capital gains and losses. In addition, gains or losses in respect of foreign currency hedges entered into in respect of amounts invested in the Portfolio will likely constitute capital gains or capital losses to the Fund if the securities in the Portfolio are capital property to the Fund and designations with respect to its income and capital gains will be made and reported to Unitholders on this basis. CRA's practice is not to grant advance income tax rulings on the characterization of items as capital gains or income and no advance income tax ruling has been requested or obtained. If these dispositions or transactions of the Fund are determined not to be on capital account, the net income of the Fund for tax purposes and the taxable component of distributions to Unitholders could increase.

The SIFT Rules will apply to a mutual fund trust that is a SIFT trust. The Fund should not be a SIFT trust for the purposes of these rules because, at any time that the Trust Units are listed or traded on a stock exchange or other public market as defined in the Tax Act, the Fund should not hold “non-portfolio property” based on its investment objectives and investment restrictions. If the SIFT Rules were to apply to the Fund, they may have an adverse impact on the Fund including on the distributions received by Unitholders.

Certain issuers of securities included in the Portfolio may be or may become SIFT trusts or SIFT partnerships. In such event, the after-tax returns realized by Unitholders may be reduced to the extent that the Fund receives distributions of income or capital gains from such SIFT trusts or allocations of income or capital gains from such SIFT partnerships. In addition, as a result of the SIFT Rules, it is possible that SIFT trusts or SIFT partnerships may seek to restructure their affairs and organizational structures in a manner that could have an impact upon the returns to the Fund.

### DISTRIBUTION POLICY

The Fund intends to make monthly cash distributions to Unitholders of record on the last Business Day of each month and pay such cash distributions on or before the 15th day of the following month. Beginning in June 2011, the Fund will annually determine and announce the Indicative Distribution Amount for the following year based upon the prevailing market conditions. The Indicative Distribution Amount will be \$0.07 per Trust Unit per month (\$0.84 per annum) for the first 12 months of the Fund. The initial cash distribution is anticipated to be payable on or before August 15<sup>th</sup>, 2010 to Unitholders of record on July 30<sup>th</sup>, 2010.

It is anticipated that the changes to the taxation of income trusts beginning in 2011 will result in a decline in the amount of distributions paid by certain income trusts. The Investment Manger expects that given the type of income trusts the Fund will invest in that the initial anticipated yield on the Portfolio will be minimally impacted. The Fund may not pay distributions at the initial targeted level if returns on the income-generating securities or other returns to the Fund are not sufficient to maintain the initial anticipated yield on the Portfolio.

Assuming the gross proceeds of the Offering are \$100 million and fees and expenses are as described herein, the Portfolio, using the maximum amount of leverage permitted, would be required to generate an average annual total return of 8.15%, inclusive of dividend and interest income, in order for the Fund to achieve its initial Indicative Distribution Amount level. Based on the anticipated composition of the Portfolio it is expected that distributions on securities held in the Portfolio will be sufficient to fund the Fund’s distributions at the initially targeted level. If the return on the Portfolio (including net realized capital gains from the sale of securities in the Portfolio) is less than the amount necessary to fund the monthly distributions, the Manager will return a portion of the capital of the Fund to Unitholders to ensure the distribution is paid and, accordingly, NAV per Trust Unit will be reduced. **The amount of distributions may fluctuate and no assurance can be given that distributions will remain at the initial Indicative Distribution Amount level.** Following the conversion of the Fund to an open-end fund on June 20, 2012, the Fund will not be able to use leverage to pursue its investment strategy and therefore the Fund may not pay a distribution at the initial Indicative Distribution Amount unless the Portfolio yields a higher return to the Fund.

If, in any year after such distributions, there would otherwise remain in the Fund additional net income or net realized capital gains, a special distribution (either in cash or Trust Units) of such portion of the net income and net realized capital gains as is necessary to ensure that the Fund will not be liable for income tax under the Tax Act will be automatically payable on the last day of that taxation year to Unitholders of record on that date. Immediately after a pro-rata distribution of Trust Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Trust Units may be consolidated such that each Unitholder will hold, after the consolidation, the same number of Trust Units

as the Unitholder held before the non-cash distributions, except in the case of a non-resident Unitholder to the extent tax was required to be withheld in respect of the distribution. See “Income Tax Considerations”.

There can be no assurance that the Fund will be able to achieve its monthly distribution objective or make payments on any Distribution Payment Date. Amounts distributed on the Trust Units that represent returns of capital are generally non-taxable to a Unitholder but reduce the Unitholder’s adjusted cost base of the Trust Units for tax purposes. See “Income Tax Considerations”.

## PURCHASES OF SECURITIES

Prospective purchasers may subscribe for Units through any one of the Agents or any member of a sub-agency group that the Agents may form. Closing of the Offering will take place on or about June 29, 2010, or such later date as may be agreed upon by the Fund and the Agents that is on or before July 27, 2010. The distribution price was determined by negotiation between the Agents and the Fund. See “Plan of Distribution”.

### The Exchange Option

The maximum number of Exchange Eligible Securities of any one Issuer that the Fund may acquire under the Exchange Option is the lesser of (i) that number that would constitute 10% of the net assets of the Fund, (ii) that number that, if combined with the other securities of such Issuer either held, directly or indirectly, or over which control or direction is exercised by the Manager, the Investment Manager or any party acting jointly or in concert with the Manager or the Investment Manager, would result in the Manager, the Investment Manager and any such party directly or indirectly holding or exercising control or direction over 19.9% of the outstanding securities of such Issuer and (iii) that number of securities with a fair market value that constitutes 9.9% of the equity value of such Issuer for purposes of section 122.1 of the Tax Act (such lesser number being referred to as the “**Maximum Ownership Level**”). **The Exchange Option does not constitute, and is not to be construed as, a take-over bid for any Issuer.** To the extent that the Maximum Ownership Level has been achieved in respect of the securities of any one Issuer and an excess of securities of such Issuer above the Maximum Ownership Level has been deposited and not rescinded, then the securities of such Issuer will be accepted by the Fund up to the Maximum Ownership Level and the balance will be re-credited to purchasers’ accounts through CDS.

The transfer of Exchange Eligible Securities to the Fund will result in a taxable disposition of such securities by the prospective purchaser who has made an Exchange Option Election. See “Income Tax Considerations — The Exchange Option”.

### Procedure for the Exchange Option

A prospective purchaser of Units who elected to pay for such Units by using the Exchange Option must have done so by means of an Exchange Option Election through CDS. A prospective purchaser who has elected to use the Exchange Option has ensured an Exchange Option Election was received by the Exchange Agent through CDS prior to 5:00 p.m. (Toronto time) on May 25, 2010. Such book-entry deposits had to be made by a CDS Participant. Once submitted to the Exchange Agent through CDS, a deposit of securities under the Exchange Option (including the transfers authorized thereby) is, subject to the completion of the Offering, irrevocable unless rescinded as described below under the heading “Purchases of Securities — Withdrawal of Exchange Option Elections”. By authorizing a deposit of securities under the Exchange Option through CDS, a prospective purchaser will have authorized the transfer to the Fund of each such security and represents and warrants that the prospective purchaser has the full right and authority to transfer the securities and is the beneficial owner of such securities, that such securities have not previously been conveyed, that the transfer of such securities is not prohibited by laws applicable to the prospective purchaser and that such securities are free and clear of all liens, encumbrances and adverse claims. Such representations and warranties will survive the issuance of Units in

exchange for such securities. The Manager's interpretation of the terms and conditions of the Exchange Option will be final and binding. The Manager reserves the right to waive any conditions of the Exchange Option, other than the Maximum Ownership Level, and to accept or reject, in whole or in part, any deposit of securities made pursuant to the Exchange Option. The Manager also reserves the right to accept or reject any security under the Exchange Option for any reason, including, without limitation, an unfavourable relationship between the Exchange Ratio, as discussed below, and the prevailing trading price or rating of an Exchange Eligible Security.

If, for any reason, at the discretion of the Manager, the Exchange Eligible Securities deposited pursuant to the Exchange Option are not acquired by the Fund, the holders of such securities will be notified of such fact as soon as practicable following the Closing or the termination of the Offering, as the case may be, and such securities will be re-credited to their accounts through CDS and the CDS Participants.

### **Determination of Exchange Ratios**

The Exchange Ratio will be determined by dividing the volume weighted average trading price of such securities on the TSX during the Pricing Period, as adjusted to reflect distributions declared by the applicable Issuer that will not be received by the Fund, by \$12.00. The Exchange Ratios will be rounded down to four decimal places. Fractional Units will not be issued by the Fund. Allocation of cash in respect of fractional Units to purchasers who have authorized the deposit of Exchange Option Elections through CDS will be at the discretion of the CDS Participant.

### **Delivery of Final Prospectus and Issuance of Press Release**

Each prospective purchaser who authorized the deposit of securities of an Exchange Eligible Securities through CDS by 5:00 p.m. (Toronto time) on May 25, 2010 will be furnished with a copy of the final prospectus relating to this Offering.

The Fund will issue a press release as soon as practicable after the close of business on June 7, 2010 announcing for each of the Exchange Eligible Security, its CUSIP number, its ticker symbol, its volume weighted average trading price during the Pricing Period and the applicable Exchange Ratio.

### **Withdrawal of Exchange Option Elections**

Prospective purchasers under the Exchange Option will be entitled to rescind their purchase by providing a written notice of rescission to such prospective purchaser's CDS Participant who effected the deposit at any time on or before the later of (i) midnight on the second Business Day after receipt or deemed receipt of this prospectus and any amendment and (ii) the close of business (Toronto time) on the second Business Day after the date on which the press release announcing the Exchange Ratios is issued. To be effective, the notice must be received by the CDS Participant within the specified time, who in turn will direct CDS to notify the Exchange Agent of such rescission. A prospective purchaser also has the rights described under "Purchasers' Statutory Rights of Withdrawal and Rescission".

### **The Exchange Eligible Securities**

The tables below set out the Exchange Eligible Securities. The name of the Exchange Eligible Security, its CUSIP number and its ticker symbol are listed

Preferred Shares

<u>Exchange Eligible Securities</u>	<u>CUSIP</u>	<u>TSX Exchange Symbol</u>
ATCO Ltd. Series 3	046789806	ACO.PR.A
Brookfield Asset Management Series 22	112585120	BAM.PR.P
Brookfield Asset Management Series 18	112585823	BAM.PR.N
Brookfield Asset Management Series 17	112585831	BAM.PR.M
Brookfield Asset Management Series 9	112585609	BAM.PR.G
Brookfield Asset Management Series 10	112585708	BAM.PR.H
Brookfield Asset Management Series 12	112585880	BAM.PR.J
Brookfield Asset Management Series 11	112585807	BAM.PR.I
Brookfield Investments Corp Series A	112741202	BRN.PR.A
Brookfield Properties Corp Series H	112900808	BPO.PR.H
Brookfield Properties Corp Series F	112900600	BPO.PR.F
Brookfield Pptys Corp Series G	112900709	BPO.PR.U
Brookfield Properties Corp Series K	112900865	BPO.PR.K
Brookfield Properties Corp Series J	112900873	BPO.PR.J
Brookfield Properties Corp Series I	112900881	BPO.PR.I
BCE INC.	05534B851	BCE.PR.Y
BCE INC.	05534B869	BCE.PR.S
BCE INC.	05534B695	BCE.PR.B
BCE INC.	05534B729	BCE.PR.H
BCE INC.	05534B828	BCE.PR.Z
BCE INC.	05534B737	BCE.PR.G
BCE INC.	05534B745	BCE.PR.F
BCE INC.	05534B810	BCE.PR.T
BCE INC.	05534B711	BCE.PR.I
BCE INC.	05534B794	BCE.PR.A
BCE INC.	05534B786	BCE.PR.C
BCE INC.	05534B703	BCE.PR.R
BOMBARDIER INC	097751507	BBD.PR.B
BOMBARDIER INC	097751606	BBD.PR.D
BOMBARDIER INC	097751705	BBD.PR.C
BANK OF MONTREAL	063671812	BMO.PR.J
BANK OF MONTREAL	063671788	BMO.PR.M
BANK OF MONTREAL	063671143	BMO.PR.K
BANK OF MONTREAL	063671747	BMO.PR.P
BANK OF MONTREAL	063671796	BMO.PR.L
BANK OF MONTREAL	063671838	BMO.PR.V
BANK OF MONTREAL	063671150	BMO.PR.N
BANK OF MONTREAL	063671762	BMO.PR.O
BANK OF NOVA SCOTIA	064149776	BNS.PR.M
BANK OF NOVA SCOTIA	064149784	BNS.PR.L
BANK OF NOVA SCOTIA	064149792	BNS.PR.K
BANK OF NOVA SCOTIA	064149693	BNS.PR.R
BANK OF NOVA SCOTIA	064149743	BNS.PR.P
BANK OF NOVA SCOTIA	064149727	BNS.PR.Q
BANK OF NOVA SCOTIA	064149818	BNS.PR.J
BANK OF NOVA SCOTIA	064149768	BNS.PR.N
BANK OF NOVA SCOTIA	064149750	BNS.PR.O

<u>Exchange Eligible Securities</u>	<u>CUSIP</u>	<u>TSX Exchange Symbol</u>
BANK OF NOVA SCOTIA . . . . .	064149677	BNS.PR.T
BANK OF NOVA SCOTIA . . . . .	064149651	BNS.PR.X
Canadian Imperial Bank of Commerce . . . . .	136069531	CM.PR.J
Canadian Imperial Bank of Commerce . . . . .	136069549	CM.PR.I
Canadian Imperial Bank of Commerce . . . . .	136069556	CM.PR.H
Canadian Imperial Bank of Commerce . . . . .	136069713	CM.PR.R
Canadian Imperial Bank of Commerce . . . . .	136069648	CM.PR.A
Canadian Imperial Bank of Commerce . . . . .	136069499	CM.PR.K
Canadian Imperial Bank of Commerce . . . . .	136069564	CM.PR.G
Canadian Imperial Bank of Commerce . . . . .	136069721	CM.PR.P
Canadian Imperial Bank of Commerce . . . . .	136069598	CM.PR.E
Canadian Imperial Bank of Commerce . . . . .	136069614	CM.PR.D
Canadian Imperial Bank of Commerce . . . . .	136069481	CM.PR.L
Canadian Imperial Bank of Commerce . . . . .	136069465	CM.PR.M
Canadian Imperial Bank of Commerce . . . . .	136069648	CM.PR.A
Canadian Utilities Limited . . . . .	136717865	CU.PR.A
Canadian Utilities Limited . . . . .	136717717	CU.PR.B
Dundee Corporation . . . . .	264901703	DC.PR.B
Dundee Wealth Inc. . . . .	265312405	DW.PR.A
Enbridge Inc. . . . .	29250N204	ENB.PR.A
Fairfax Financial Holdings Limited . . . . .	303901508	FFH.PR.C
Firstservice Corporation . . . . .	33761N208	FSV.PR.U
Fortis Inc. . . . .	349553867	FTS.PR.F
Fortis Inc. . . . .	349553834	FTS.PR.G
Fortis Inc. . . . .	349553404	FTS.PR.C
Fortis Inc. . . . .	349553800	FTS.PR.E
George Weston Limited . . . . .	961148889	WN.PR.A
George Weston Limited . . . . .	961148863	WN.PR.C
George Weston Limited . . . . .	961148855	WN.PR.D
George Weston Limited . . . . .	961148848	WN.PR.D
Great-West Lifeco Inc. . . . .	39138C601	GWO.PR.E
Great-West Lifeco Inc. . . . .	39138C874	GWO.PR.H
Great-West Lifeco Inc. . . . .	39138C882	GWO.PR.G
Great-West Lifeco Inc. . . . .	39138C825	GWO.PR.L
Great-West Lifeco Inc. . . . .	39138C809	GWO.PR.F
Great-West Lifeco Inc. . . . .	39138C858	GWO.PR.J
HSBC Bank Canada . . . . .	40427H707	HSB.PR.D
HSBC Bank Canada . . . . .	40427H509	HSB.PR.C
HSBC Bank Canada . . . . .	40427H806	HSB.PR.E
Industrial Alliance . . . . .	455871301	IAG.PR.A
Industrial Alliance . . . . .	455871400	IAG.PR.E
Industrial Alliance . . . . .	455870402	IAG.PR.C
IGM Financial Inc. . . . .	449586304	IGM.PR.B
Loblaw Companies Limited . . . . .	539481606	L.PR.A
Manulife Financial Corporation . . . . .	56501R304	MFC.PR.A
Manulife Financial Corporation . . . . .	56501R502	MFC.PR.C
Manulife Financial Corporation . . . . .	56501R403	MFC.PR.B
Manulife Financial Corporation . . . . .	56501R874	MFC.PR.E
Manulife Financial Corporation . . . . .	56501R809	MFC.PR.D

<u>Exchange Eligible Securities</u>	<u>CUSIP</u>	<u>TSX Exchange Symbol</u>
National Bank of Canada . . . . .	633067517	NA.PR.L
National Bank of Canada . . . . .	633067392	NA.PR.N
National Bank of Canada . . . . .	633067715	NA.PR.K
National Bank of Canada . . . . .	633067418	NA.PR.M
National Bank of Canada . . . . .	633067350	NA.PR.P
National Bank of Canada . . . . .	633067368	NA.PR.O
Nexen Inc. . . . .	65334H508	NXY.PRU
Nova Scotia Power Inc. . . . .	669816803	NSI.PR.D
Power Corp of Canada . . . . .	739239861	POW.PR.D
Power Corp of Canada . . . . .	739239804	POW.PR.B
Power Corp of Canada . . . . .	739239887	POW.PR.A
Power Corp of Canada . . . . .	739239879	POW.PR.C
Power Financial Corp . . . . .	73927C852	PWF.PR.J
Power Financial Corp. . . . .	73927C837	PWF.PR.K
Power Financial Corp. . . . .	73927C829	PWF.PR.L
Power Financial Corp. . . . .	73927C704	PWF.PR.D
Power Financial Corp. . . . .	73927C886	PWF.PR.F
Power Financial Corp. . . . .	73927C860	PWF.PR.H
Power Financial Corp. . . . .	73927C787	PWF.PR.O
Power Financial Corp. . . . .	73927C878	PWF.PR.G
Power Financial Corp. . . . .	73927C845	PWF.PR.I
Power Financial Corp. . . . .	73927C811	PWF.PR.M
Royal Bank of Canada . . . . .	780085445	RY.PR.A
Royal Bank of Canada . . . . .	780102653	RY.PR.F
Royal Bank of Canada . . . . .	780102554	RY.PR.G
Royal Bank of Canada . . . . .	780102760	RY.PR.E
Royal Bank of Canada . . . . .	780102844	RY.PR.D
Royal Bank of Canada . . . . .	780102604	RY.PR.C
Royal Bank of Canada . . . . .	780085247	RY.PR.B
Royal Bank of Canada . . . . .	780085502	RY.PR.W
Royal Bank of Canada . . . . .	78010A416	RY.PR.I
Royal Bank of Canada . . . . .	78010A333	RY.PR.L
Royal Bank of Canada . . . . .	78010A630	RY.PR.H
Royal Bank of Canada . . . . .	780086815	RY.PR.Y
Royal Bank of Canada . . . . .	780086856	RY.PR.X
Royal Bank of Canada . . . . .	780086302	RY.PR.N
Royal Bank of Canada . . . . .	780086500	RY.PR.P
Royal Bank of Canada . . . . .	780086708	RY.PR.R
Royal Bank of Canada . . . . .	780086872	RY.PR.T
Sun Life Financial Inc. . . . .	866796501	SLF.PR.D
Sun Life Financial Inc. . . . .	866796402	SLF.PR.C
Sun Life Financial Inc. . . . .	866796600	SLF.PR.E
Sun Life Financial Inc. . . . .	866796204	SLF.PR.A
Sun Life Financial Inc. . . . .	866796303	SLF.PR.B
Sun Life Financial Inc. . . . .	866796709	SLF.PR.F
Toronto-Dominion Bank . . . . .	891160699	TD.PR.N
Toronto-Dominion Bank . . . . .	891160715	TD.PR.M
Toronto-Dominion Bank . . . . .	891160681	TD.PR.O
Toronto-Dominion Bank . . . . .	891145609	TD.PR.S

<u>Exchange Eligible Securities</u>	<u>CUSIP</u>	<u>TSX Exchange Symbol</u>
Toronto-Dominion Bank . . . . .	891145807	TD.PR.A
Toronto-Dominion Bank . . . . .	891145708	TD.PR.Y
Toronto-Dominion Bank . . . . .	891145203	TD.PR.P
Toronto-Dominion Bank . . . . .	891145401	TD.PR.R
Toronto-Dominion Bank . . . . .	891145302	TD.PR.Q
Toronto-Dominion Bank . . . . .	891145864	TD.PR.C
Toronto-Dominion Bank . . . . .	891145831	TD.PR.E
Toronto-Dominion Bank . . . . .	891145799	TD.PR.G
Toronto-Dominion Bank . . . . .	891145773	TD.PR.I
Toronto-Dominion Bank . . . . .	891145740	TD.PR.K
Thomson Reuters Corp. . . . .	884903303	TRI.PR.B
TRANSCANADA CORP. . . . .	89353D404	TRP.PR.A
TRANSCANADA PIPELINES LIMITED . . . . .	893526699	TCA.PR.Y
TRANSCANADA PIPELINES LIMITED . . . . .	893526715	TCA.PR.X
Yellow Media Inc. . . . .	984246207	YPG.PR.A
Yellow Media Inc. . . . .	984246306	YPG.PR.B
Yellow Media Inc. . . . .	984246405	YPG.PR.C
Yellow Media Inc. . . . .	984246603	YPG.PR.D

*Income Trusts and Dividend-Paying Equities*

<u>Name</u>	<u>CUSIP</u>	<u>Symbol</u>
AGF Management . . . . .	001092105	AGF.B
Allied Properties REIT . . . . .	019456102	AP.UN
Armtec Infrastructure Income Fund . . . . .	041900101	ARF.UN
AltaGas Income Trust . . . . .	021360102	ALA.UN
ARC Energy Trust . . . . .	001986108	AET.UN
Artis REIT . . . . .	04315L105	AX.UN
Atlantic Power Corp . . . . .	04878Q103	ATP
Bank of Montreal . . . . .	063671101	BMO
Bank of Nova Scotia . . . . .	064149107	BNS
Baytex Energy Trust . . . . .	073176109	BTE.UN
Bird Construction Income Fund . . . . .	090762105	BDT.UN
Boardwalk REIT . . . . .	096631106	BEI.UN
Bonavista Energy Trust . . . . .	098536105	BNP.UN
Boralex Power Income Fund . . . . .	09951T106	BPT.UN
Boston Pizza Royalties Income Fund . . . . .	101084101	BPF.UN
Calloway REIT . . . . .	131253205	CWT.UN
Cdn. Apartment Properties REIT . . . . .	134921105	CAR.UN
Canadian Imperial Bank of Commerce . . . . .	136069101	CM
Cdn. Real Estate Investment Tr. . . . .	13650J104	REF.UN
Canadian Oil Sands Trust . . . . .	13642L100	COS.UN
Chartwell Seniors Housing REIT . . . . .	16140U100	CSH.UN
CI Financial Corp. . . . .	125491100	CIX
Cineplex Galaxy Income Fund . . . . .	172453102	CGX.UN
CML Health Income Fund . . . . .	12582P105	CLC.UN
Cominar REIT . . . . .	199910100	CUF.UN
Consumers' Waterheater Income Fund . . . . .	210724100	CWI.UN
Capital Power Income L.P. . . . .	14042N100	CPA.UN
Davis + Henderson Income Fund . . . . .	239058100	DHF.UN
Daylight Resources Trust . . . . .	239600109	DAY.UN
Enerplus Resources Fund . . . . .	29274D604	ERF.UN
Extencicare REIT . . . . .	302251103	EXE.UN
Fort Chicago Energy Partners L.P. . . . .	346921109	FCE.UN
Freehold Royalty Trust . . . . .	355904103	FRU.UN
Great-West Lifeco Inc. . . . .	39138C106	GWO
H&R REIT . . . . .	404428203	HR.UN
IBI Income Fund . . . . .	449213107	IBG.UN
IGM Financial Inc. . . . .	449586106	IGM
InnVest REIT . . . . .	45771T108	INN.UN
Innergex Power Income Fund . . . . .	45771K107	IEF.UN
Inter Pipeline Fund . . . . .	45833P102	IPL.UN
Intact Financial Corporation . . . . .	45823T106	IFC
Jazz Air Income Fund . . . . .	47214X100	JAZ.UN
Just Energy Income Fund . . . . .	48213T108	JE.UN
K-Bro Linen Income Fund . . . . .	482427101	KBL.UN
Keyera Facilities Income Fund . . . . .	493272108	KEY.UN
Labrador Iron Ore Royalty Income Fund . . . . .	504904103	LIF.UN
Laurentian Bank of Canada . . . . .	51925D106	LB
Liquor Stores Income Fund . . . . .	536345200	LIQ.UN

<u>Name</u>	<u>CUSIP</u>	<u>Symbol</u>
Loblaw Companies Limited . . . . .	539481101	L
Manulife Financial Corp. . . . .	56501R106	MFC
Medical Facilities Corp. . . . .	58457V206	DR.UN
Morguard REIT . . . . .	617914106	MRT.UN
Morneau Sobeco Income Fund . . . . .	61767T101	MSI.UN
NAL Oil & Gas Trust . . . . .	628949109	NAE.UN
National Bank of Canada . . . . .	633067103	NA
New Flyer Industries . . . . .	64438R306	NFI.UN
North West Company Fund . . . . .	662906106	NWF.UN
Northern Property REIT . . . . .	665624102	NPR.UN
Northland Power Income Fund . . . . .	666910104	NPI.UN
Paramount Energy Trust . . . . .	699219101	PMT.UN
Pembina Pipeline Income Fund . . . . .	706329109	PIF.UN
Pengrowth Energy Trust . . . . .	706902509	PGF.UN
Penn West Energy Trust . . . . .	707885109	PWT.UN
Peyto Energy Trust . . . . .	717045108	PEY.UN
Power Corporation of Canada . . . . .	739239101	POW
Power Financial Corporation . . . . .	73927C100	PWF
Primaris Retail REIT . . . . .	74157U109	PMZ.UN
RioCan REIT . . . . .	766910103	REI.UN
Rogers Communications Inc. . . . .	775109200	RCL.B
Royal Bank of Canada . . . . .	780087102	RY
Sun Life Financial Inc. . . . .	866796105	SLF
Telus Corporation . . . . .	87971M103	T
Thomson Reuters Corporation . . . . .	884903105	TRI
Toronto-Dominion Bank . . . . .	891160509	TD
Transalta Corp. . . . .	89346D107	TA
Transcanada Corp. . . . .	89353D107	TRP
Vermilion Energy Trust . . . . .	923728109	VET.UN
Westshore Terminals Income Fund . . . . .	960911105	WTE.UN
Whiterock REIT . . . . .	965531502	WRK.UN
Yellow Pages Income Fund . . . . .	985569102	YLO.UN

## REDEMPTION OF TRUST UNITS

### Monthly Redemption

Prior to the Conversion Date, Trust Units may be surrendered prior to 5:00 p.m. (Toronto time) on the 10<sup>th</sup> Business Day before the last Business Day of the applicable month by the holders thereof for Monthly Redemption. Upon receipt by the Fund of the redemption notice, in the manner described below under the heading “Redemption of Trust Units — Exercise of Redemption Right”, the holder of a Trust Unit shall be entitled to receive a price per Trust Unit (the “Monthly Redemption Price”) equal to the lesser of:

- (a) 95% of the “market price” of the Trust Units on the principal market on which the Trust Units are quoted for trading during the 20 trading day period ending immediately before the Monthly Redemption Date; and
- (b) 100% of the “closing market price” on the principal market on which the Trust Units are quoted for trading on the Monthly Redemption Date.

For the purposes of this calculation, “market price” will be an amount equal to the weighted average of the closing price of the Trust Units for each of the trading days on which there was a closing price; provided that if the applicable exchange or market does not provide a closing price, but only provides the highest and lowest prices of the Trust Units traded on a particular day, the “market price” shall be an amount equal to the average of the highest and lowest prices for each of the trading days on which there was a trade; and provided further that if there was trading on the applicable exchange or market for fewer than 10 of the 20 trading days, the “market price” shall be the average of the following prices established for each of the 20 trading days: the average of the last bid and last asking prices of the Trust Units for each day there was no trading; the closing price of the Trust Units for each day that there was trading if the exchange or market provides a closing price; and the average of the highest and lowest prices of the Trust Units for each day that there was trading if the market provides only the highest and lowest prices of Trust Units traded on a particular day. The “closing market price” shall be an amount equal to the closing price of the Trust Units if there was a trade on the date and the exchange or market provides a closing price; an amount equal to the average of the highest and lowest prices of the Trust Units if there was trading and the exchange or other market provides only the highest and lowest prices of Trust Units traded on a particular day; or the average of the last bid and last asking prices of the Trust Units if there was no trading on that date.

The Monthly Redemption Price payable by the Fund in respect of any Trust Units surrendered for redemption shall be satisfied by way of a cash payment on the Redemption Payment Date, provided that the entitlement of Unitholders to receive cash upon the redemption of their Trust Units may be suspended if: (i) at the time such Trust Units are tendered for redemption, the outstanding Trust Units are not listed for trading on a stock exchange or traded or quoted on another market which provides representative fair market value prices for the Trust Units; or (ii) the normal trading of Trust Units is suspended or halted on any stock exchange on which the Trust Units are listed (or, if not listed on a stock exchange, on any market on which the Trust Units are quoted for trading) on the Monthly Redemption Date or for more than 10 trading days during the 20 day trading period ending immediately before the Monthly Redemption Date.

It is anticipated that the Monthly Redemption will not be the primary mechanism for Unitholders to dispose of their Trust Units.

### Redemption of Trust Units on the First NAV Redemption Date

Unitholders who wish to redeem their Trust Units on the First NAV Redemption Date will receive a redemption price per Trust Unit equal to NAV per Trust Unit as at the First NAV Redemption Date. On and after the Conversion Date, Unitholders may redeem Trust Units on any Business Day at the NAV per Trust Unit.

Trust Units may be surrendered for redemption during the Notice Period by the registered Unitholder to the Registrar and Transfer Agent. Trust Units surrendered for redemption by a Unitholder during the Notice Period will be redeemed on the First NAV Redemption Date and the Unitholder will receive payment on or before the seventh Business Day following the First NAV Redemption Date.

The redemption right must be exercised by causing written notice to be given within the Notice Period and in the manner described below. Such surrender will be irrevocable upon the delivery of notice to CDS through a CDS Participant, except with respect to those Trust Units which are not paid for by the Fund on the First NAV Redemption Date.

An owner of Trust Units who desires to exercise redemption privileges thereunder must do so by causing a CDS Participant to deliver to CDS (at its office in the City of Toronto) on behalf of the owner a written notice (the "Redemption Notice") of the owner's intention to redeem Trust Units. An owner 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 privilege sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver notice to CDS and so as to permit CDS to deliver notice to the Registrar and Transfer Agent in advance of the required time. The form of Redemption Notice will be available from a CDS Participant or Registrar and Transfer Agent. Any expense associated with the preparation and delivery of Redemption Notices will be for the account of the owner exercising the redemption privilege.

Except as provided under "Suspension of Redemptions", by causing a CDS Participant to deliver to CDS a notice of the owner's intention to redeem Trust Units, an owner 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 the redemption privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

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

### **Redemption of Trust Units On and After Conversion Date**

On and after the Conversion Date, Unitholders may redeem Trust Units on any Business Day without charge. To do so, Unitholders must complete a written redemption request. If the redemption request is deposited with a dealer, the dealer must send the redemption request to the Toronto office of the registrar and transfer agent on the same day. If the dealer receives the redemption request after the close of business (usually 4:00 p.m. Toronto time) or on a day that is not a Business Day, the dealer must send it to the registrar and transfer agent on the next Business Day.

A redemption request received by the registrar and transfer agent before the close of business (usually 4:00 p.m. Toronto time) on a Business Day will be processed at the NAV per Trust Unit calculated at the close of business on that Business Day. A redemption request received by the registrar and transfer agent after the close of business on a Business Day or on a day which is not a Business Day will be processed at the NAV per Trust Unit determined at the close of business on the next Business Day.

Whenever practicable, a dealer must send such redemption request by courier or fax, to ensure that the registrar and transfer agent receives it as quickly as possible. The cost of sending the redemption request must be paid by the dealer. A redemption request sent by fax directly by an investor will not be accepted.

For the protection of Unitholders in the Fund, a Unitholder's signature on any redemption request must be guaranteed by a bank, trust company or a dealer. This procedure must be followed carefully. Other documentation may be required for redemption by corporations or other Unitholders that are not individuals.

If all necessary redemption documents have been properly completed and sent to the registrar and transfer agent with the redemption request, the Manager will pay the redemption amount within three Business Days of the day on which the redemption request was placed. Otherwise, the redemption amount will be paid within three Business Days after the registrar and transfer agent receives the missing documentation. If all necessary documents are not received by the registrar and transfer agent within ten Business Days following the date on which the redemption was requested, the Manager will reverse the redemption order by processing a purchase order on the tenth Business Day after the redemption order for the number of Trust Units that were redeemed. The redemption proceeds will be used to pay for the Trust Units purchased. Any excess proceeds belong to the Fund. Any shortfall will initially be paid to the Fund by the Manager, but the Manager will be entitled to collect the shortfall, plus any costs involved, from the dealer who placed the redemption request. The dealer may, in turn, collect the shortfall plus any costs involved from the Unitholders who placed the redemption request. Where no dealer has been involved, the Manager will be entitled to collect the shortfall and costs from the Unitholders who placed the redemption request.

There is no charge for redemptions of Trust Units that were acquired before the Conversion Date.

### **Suspension of Redemptions**

The Manager may direct the Trustee to suspend the redemption of Trust Units or payment of redemption proceeds: (i) during any period when normal trading is suspended on a stock exchange or other market on which securities owned by the Fund are listed and traded, if these securities represent more than 50% by value or underlying market exposure of the total assets of the Fund, without allowance for liabilities, and if these securities are not traded on any other exchange that represents a reasonably practical alternative for the Fund; or (ii) with the prior permission of the applicable securities regulatory authorities, for any period not exceeding 30 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Fund or which impair the ability of the Trustee to determine the value of the assets of the Fund. The suspension may apply to all requests for redemption received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All Unitholders making such requests shall be advised by the Manager of the suspension and that the redemption will be effected at a price determined on the first Business Day following the termination of the suspension. All such Unitholders shall have and shall be advised that they have the right to withdraw their requests for redemption. The suspension shall terminate in any event on the first day on which the condition giving rise to the suspension has ceased to exist, provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Fund, any declaration of suspension made by the Manager shall be conclusive.

### **CONVERSION OF THE FUND**

The Trust Units will be redeemable at NAV per Trust Unit on the First NAV Redemption Date. See "Redemption of the Trust Units — Redemption of Trust Units on the First NAV Redemption Date."

The Fund will become an open-ended mutual fund on June 20, 2012. On and after the Conversion, the Trust Units will be redeemable at NAV per Trust Unit on a daily basis, at such time the Trust Units will become subject to NI 81-102. The Fund will provide all Unitholders with written notice at least 60 days prior to the Conversion Date.

On the Conversion Date, the Fund will become subject to NI 81-102. The Declaration of Trust provides that certain provisions thereof that apply before the Conversion Date will cease to apply and those provisions that apply pursuant to NI 81-102 will thereafter be applicable. For example, the Fund will be able to issue different classes and series of units. The circumstances under which Unitholders will be entitled to a vote will be reduced and certain matters which require approval by an Extraordinary Resolution will, after the Conversion Date, require the approval of the holders of a simple majority of the Trust Units voting thereon. Following the conversion of the Fund to an open-end mutual fund on the Conversion Date, it will be subject to NI 81-102 and Unitholders will be entitled to redeem their Trust Units daily. Except with respect to redemptions, the Trust Units will generally have the same characteristics before and after the Conversion Date, although the Manager may also create other classes of units into which the Trust Units would be convertible, at the option of the holder, including a class of units that would not have a Servicing Fee. The conversion of the Fund will not affect the Fund's investment objectives or strategy. See "Unitholder Matters — Matters Requiring Unitholder Approval".

### INCOME TAX CONSIDERATIONS

In the opinion of Borden Ladner Gervais LLP, counsel to the Fund, and Blake, Cassels & Graydon LLP, counsel to the Agents, the following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable to the acquisition, holding and disposition of Trust Units and Warrants by a Unitholder who acquires Trust Units and Warrants pursuant to this prospectus. This summary is applicable to a Unitholder who is an individual (other than a trust) and who, for the purposes of the Tax Act and at all relevant times, is resident in Canada, deals at arm's length with and is not affiliated with the Fund and holds Trust Units and Warrants as capital property. Generally, the Trust Units and Warrants will be considered to be capital property to a purchaser provided that the purchaser does not hold such Trust Units and Warrants in the course of carrying on a business of buying and selling securities and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain Unitholders who might not otherwise be considered to hold Trust Units as capital property may, in certain circumstances, be entitled to have such Trust Units (but, for greater certainty, not Warrants) and all other "**Canadian securities**" as defined in the Tax Act owned or subsequently acquired by them treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act.

This summary is based on the current provisions of the Tax Act, counsel's understanding of the current administrative policies and assessing practices of the CRA published in writing by it prior to the date hereof and all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (such proposals referred to hereafter as the "**Tax Proposals**") and relies upon advice from the Manager as to certain factual matters. This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, nor does it take into account other federal or any provincial, territorial or foreign income tax legislation or considerations. There can be no assurance that the Tax Proposals will be enacted in the form publicly announced or at all.

This summary is also based on the assumptions that none of the issuers of the securities in the Portfolio will be foreign affiliates of the Fund or of any Unitholder and that none of the securities in the Portfolio will be a "tax shelter investment" within the meaning of section 143.2 of the Tax Act, or an "offshore investment fund property" that would require the Fund to include amounts in income in respect of such securities pursuant to either section 94.1 or paragraph 94(1)(d) of the Tax Act, or an interest in a non-resident trust other than an "exempt foreign trust" as defined in proposed section 94 of the Tax Act, as set forth in the proposed amendments to the Tax Act dealing with foreign investment entities and non-resident trusts set out in the Notice of Ways and Means Motion to Amend the Tax Act dated March 4, 2010 (or amendments to such proposals, provisions as enacted into law or successor provisions thereto).

This summary is also based on the assumption that the Fund will at no time be a “**SIFT trust**” as defined in the SIFT Rules. Provided that the Fund complies with its investment restrictions and does not hold “**non-portfolio property**” as defined in the SIFT Rules, it will not be a SIFT trust. If the Fund were to become a SIFT trust within the meaning of the SIFT Rules, the income tax considerations discussed herein could be materially and adversely different.

**This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Trust Units and Warrants and does not describe the income tax considerations relating to the deductibility of interest on money borrowed to acquire Trust Units and Warrants. Moreover, the income and other tax consequences of acquiring, holding or disposing of Trust Units and Warrants will vary depending on an investor’s particular circumstances including the province or territory in which the investor resides or carries on business. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any investor. Investors should consult their own tax advisors for advice with respect to the income tax consequences of an investment in Trust Units and Warrants, based on their particular circumstances.**

### **Status of the Fund**

This summary is based on the assumptions that the Fund will qualify at all times as a “**mutual fund trust**” within the meaning of the Tax Act, that the Fund will validly elect under the Tax Act to be a mutual fund trust from the date it was established, that the Fund has not been established and will not be maintained primarily for the benefit of non-residents and that not more than 50% (based on fair market value) of the Trust Units will be held by non-residents of Canada, partnerships that are not “**Canadian partnerships**” as defined in the Tax Act, or any combination thereof.

To qualify as a mutual fund trust (i) the Fund must be a Canadian resident “**unit trust**” for purposes of the Tax Act, (ii) the only undertaking of the Fund must be (a) the investing of its funds in property (other than real property or interests in real property or an immovable or a real right in an immovable), (b) the acquiring, holding, maintaining, improving, leasing or managing of any real property (or interest in real property) or of any immovable (or a real right in an immovable) that is capital property of the Fund, or (c) any combination of the activities described in (a) and (b), and (iii) the Fund must comply with certain minimum requirements respecting the ownership and dispersal of Trust Units (the “minimum distribution requirements”). In this connection, (i) the Manager intends to cause the Fund to qualify as a unit trust throughout the life of the Fund, (ii) the Fund’s undertaking conforms with the restrictions for mutual fund trusts, and (iii) the Manager has advised counsel that it has no reason to believe that, following the Closing, the Fund will not comply with the minimum distribution requirements at all material times. The Manager has advised counsel that it intends to ensure that the Fund will meet the requirements necessary for it to qualify as a mutual fund trust no later than the Closing Date and at all times thereafter and to file the necessary election so that the Fund will qualify as a mutual fund trust throughout its first taxation year.

If the Fund were not to qualify as a mutual fund trust at all times, the income tax considerations described below would, in some respects, be materially and adversely different.

Provided that the Fund qualifies and continues at all times to qualify as a “**mutual fund trust**” within the meaning of the Tax Act, the Trust Units will be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered disability savings plans, registered education savings plans and tax-free savings accounts (each a “**plan trust**”). Provided that the Warrants are listed and continue at all times to be listed on a designated stock exchange for purposes of the Tax Act (which includes the TSX), or provided that at all times the Trust Units are qualified investments for plan trusts and the Fund is not, and deals at arm’s length with each person who is, an annuitant, a beneficiary, an employer or a subscriber under or a holder of a plan trust, the Warrants will be qualified investments for plan trusts. For certain consequences of holding Trust Units and Warrants in a plan trust, see “Income Tax Considerations — Taxation of Registered Plans”.

## Taxation of the Fund

The Fund will be subject to tax in each taxation year 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 amount paid or payable to Unitholders in the year. The Manager has advised counsel that the Fund intends to make distributions to Unitholders and to deduct, in computing its income in each taxation year, such amount as will be sufficient to ensure that the Fund will not be liable for income tax under Part I of the Tax Act for each year other than such tax on net realized capital gains that will be recoverable by the Fund in respect of such year by reason of the capital gains refund mechanism.

With respect to an issuer that is a trust resident in Canada whose units are included in the Portfolio and held as capital property for the purposes of the Tax Act, and that is not subject in a taxation year to the tax under the SIFT Rules, the Fund is required to include in its income such portion of the net income and the taxable portion of net realized capital gains of such issuer as is paid or becomes payable to the Fund in the year, notwithstanding that certain of such amounts may be reinvested in additional units 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 Fund and are designated by the issuer in respect of the Fund will effectively retain their character as such in the hands of the Fund.

The Fund is generally required to reduce the adjusted cost base of the units of such issuer structured as a trust resident in Canada to the extent that all amounts paid or payable in a year by such issuer to the Fund exceed the sum of the amounts included in the income of the Fund for the year and the Fund'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 Fund of the unit of such issuer would otherwise be less than zero, the negative amount is deemed to be a capital gain realized by the Fund and the Fund's adjusted cost base of such unit is increased by the amount of such deemed capital gain to zero.

Under the SIFT Rules, each issuer in the Portfolio that is a “**SIFT trust**” or “**SIFT partnership**” as defined under the SIFT Rules (which will generally include income trusts, other than certain REITs, and certain partnerships, the units of which are listed or traded on a stock exchange or other public market) will be subject to a special tax in respect of (i) income from business carried on in Canada, and (ii) certain income and capital gains respecting “non-portfolio properties” (collectively, the “**Non-Portfolio Earnings**”). Non-Portfolio Earnings that are earned by a SIFT partnership or are distributed by a SIFT trust to its unitholders will be taxed at a rate that is equivalent to the federal general corporate tax rate plus a prescribed amount on account of provincial tax. The SIFT Rules will generally not apply for taxation years that end before 2011 where such an issuer would have been a SIFT trust or a SIFT partnership on October 31, 2006 had the SIFT Rules been in force and applied to the issuer as of that date and the issuer complied with guidelines issued by the Department of Finance on December 15, 2006 (and amended on February 25, 2009) and incorporated by reference into the SIFT Rules concerning the acceptable level of growth for such issuers. In all other cases, the SIFT Rules will generally apply to the 2007 and later taxation years of a SIFT trust or SIFT partnership. Any Non-Portfolio Earnings that become payable by a SIFT trust or are allocated by a SIFT partnership will be taxed as though they were a taxable dividend from a taxable Canadian corporation and will be deemed to be an “eligible dividend” eligible for the enhanced gross-up and tax credit rules.

The Fund will also be required to include in its income for each taxation year, any dividends received (or deemed to be received) by it in such year on a Portfolio security and 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. Upon the actual or deemed disposition of indebtedness, the Fund will be required to include in computing its income for the year of disposition all interest that accrued on such indebtedness from the last interest payment date to the date of disposition except to the extent such interest was included in computing the Fund's income for that

or another taxation year and such income inclusion will reduce the proceeds of disposition for purposes of computing any capital gain or loss.

In computing its income for tax purposes, the Fund may deduct reasonable administrative and other expenses incurred to earn income, including interest payable by the Fund on borrowed funds used to purchase securities to be included in the Portfolio subject to the October 2003 Proposals. The Fund may generally deduct the costs and expenses of this Offering (including the Warrant exercise fee) paid by the Fund and not reimbursed at a rate of 20% per year, pro-rated where the Fund's taxation year is less than 365 days. Any losses incurred by the Fund may not be allocated to Unitholders but may generally be carried forward and back and deducted in computing the taxable income of the Fund in accordance with the detailed rules and limitations in the Tax Act (including the October 2003 Proposals discussed below).

It is possible that, under the October 2003 Proposals, or the Alternative Proposal, the deduction of losses of the Fund in a particular taxation year could be limited. Under the October 2003 Proposals, a taxpayer will have a loss for a taxation year from a particular source that is a business or property only if, in that year, it is reasonable to expect that the taxpayer will realize a cumulative profit from the business or property during the time that the taxpayer has carried on, and can reasonably be expected to carry on, the business, or has held, and can reasonably be expected to hold, the property. If the deduction of losses of the Fund is limited in a particular year, the taxable income of the Fund would be increased along with the taxable amount of distributions to Unitholders.

The CRA has expressed a view that, in certain circumstances, the deductibility of interest on money borrowed to invest in an income trust may be reduced on a pro rata basis in respect of distributions from the income trust that are a return of capital and which are not reinvested for an income earning purpose. Counsel are of the view that, while the ability to deduct interest depends on the facts, based on the jurisprudence and the anticipated nature of income trust distributions, the CRA's view should not affect the Fund's ability to deduct interest on money borrowed to acquire units of income trusts included in the Portfolio securities. If the CRA's view were to apply to the Fund, part of the interest payable by the Fund in connection with money borrowed to acquire certain Portfolio securities could be non-deductible, increasing the net income of the Fund for tax purposes and the taxable component of distributions to Unitholders.

Upon the actual or deemed disposition of a security included in the Portfolio, the Fund will realize a capital gain (or capital loss) to the extent the proceeds of disposition net of any amounts included as interest on the disposition of the security and any reasonable costs of disposition exceed (or are less than) the adjusted cost base of such security unless the Fund were considered to be trading or dealing in securities or otherwise carrying on a business of buying and selling securities or the Fund has acquired the security in a transaction or transactions considered to be an adventure in the nature of trade. The Manager has advised counsel that the Fund will purchase securities in the Portfolio with the objective of receiving distributions and income thereon and will take the position that gains and losses realized on the disposition thereof are capital gains and capital losses. The Manager has also advised counsel that the Fund intends to make an election under subsection 39(4) of the Tax Act so that all securities included in the Portfolio that are "Canadian securities" (as defined in the Tax Act) will be deemed to be capital property to the Fund.

The Fund will be entitled for each taxation year throughout which it is a mutual fund trust for purposes of the Tax Act to reduce (or receive a refund in respect of) its liability, if any, for tax on its net realized capital gains by an amount determined under the Tax Act based on the redemptions of Trust Units during the year (the "**Capital Gains Refund**").

The Capital Gains Refund in a particular taxation year may not completely offset the tax liability of the Fund for such taxation year which may arise upon the sale or other disposition of securities included in the Portfolio in connection with the redemption of Trust Units.

The Fund will be deemed to realize a capital gain equal to the amount of the purchase price for a Unit allocated to a Warrant which expires unexercised on the Warrant Expiry Time.

The Fund may enter into transactions denominated in currencies other than the Canadian dollar, including the acquisition of securities in the Portfolio. The cost and proceeds of disposition of securities, interest and all other amounts will be determined for the purposes of the Tax Act in Canadian dollars using the appropriate exchange rates determined in accordance with the detailed rules in the Tax Act in that regard. The amount of income, gains and losses realized by the Fund may be affected by fluctuations in the value of foreign currencies relative to the Canadian dollar. Gains or losses in respect of currency hedges entered into in respect of amounts invested in the Portfolio will likely constitute capital gains and capital losses to the Fund if the securities in the Portfolio are capital property to the Fund, and provided that the hedge is sufficiently linked to securities denominated in the foreign currency.

The Fund 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 by the Fund exceeds 15% of the amount included in the Fund's income from such investments, net of associated deductions, such excess may generally be deducted by the Fund in computing its net income for the purposes of the Tax Act. To the extent that such foreign tax paid does not exceed 15% of such amount and has not been deducted in computing the Fund's income, the Fund may designate in respect of a Unitholder a portion of its foreign source income which can reasonably be considered to be part of the Fund's income distributed to such Unitholder so that such income and a portion of the foreign tax paid by the Fund 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 the Conversion occurs by way of a tax-deferred merger involving the Fund and an open-end mutual fund, the taxation year of each of the merging funds (one of the funds being the "**continuing fund**" and the other fund being the "**terminating fund**") during which the merger occurs (the "**Merger Year**") will be deemed to end on the date of the merger. To the extent necessary, the Fund will distribute to the Unitholders a sufficient amount of its net income and net realized capital gains for the Merger Year to ensure the Fund will not be liable for non-refundable income tax on such amounts under the Tax Act. Any unused accumulated loss carryforwards of each merging fund will expire at the end of the Merger Year and will not be available to be deducted against taxable income or gains arising after the merger. Further, unamortized issue expenses incurred by the terminating fund will not be available to be deducted against income and gains in the future taxation years of the continuing fund.

### **Taxation of Unitholders**

A reasonable allocation of the purchase price of the Units between the Trust Units and the Warrants will be required for tax purposes. The Manager has advised counsel that the Fund will allocate \$0.12 to each Warrant. Such allocation is not binding on the CRA and the CRA may not agree with such allocation. For the purposes of determining the adjusted cost base to a Unitholder of a Warrant, when Warrants are acquired, the cost of newly acquired Warrants will be averaged with the adjusted cost base of all Warrants owned by the Unitholder as capital property before that time.

The exercise of a Warrant will not constitute a disposition of property for purposes of the Tax Act and, consequently, no gain or loss will be realized by a holder upon the exercise of a Warrant. The cost to the holder of a Trust Unit acquired upon the exercise of a Warrant will be equal to the aggregate of the adjusted cost base of the Warrant so exercised and the subscription price paid by such holder for the Trust Unit. The cost of a Trust Unit acquired by a holder upon the exercise of a Warrant will be averaged with the adjusted cost base of all other Trust Units already held as capital property by the holder at the time of the exercise of the Warrant in order to determine the adjusted cost base of each such Trust Unit to the Unitholder.

On the disposition or deemed disposition of a Warrant, the Unitholder will realize a capital gain (or capital loss) to the extent that the Unitholder's proceeds of disposition exceed (or are exceeded by) the aggregate adjusted cost base of the Warrant and any reasonable costs of disposition. The expiry of an unexercised Warrant will generally give rise to a capital loss equal to the adjusted cost base to the holder of the expired Warrant. Any such capital gains or capital losses will be treated as described below in the discussion of disposition of Trust Units.

A Unitholder will generally be required to include in computing income for a taxation year the amount of the Fund's net income for the taxation year, including net realized taxable capital gains, paid or payable to the Unitholder (whether in cash or in Trust Units) in the taxation year. The non-taxable portion of the Fund's net realized capital gains paid or payable and designated to a Unitholder in a taxation year will not be included in the Unitholder's income for the year. Any other amount in excess of the Unitholder's share of the Fund's net income for a taxation year paid or payable to the Unitholder in the year will not generally be included in the Unitholder's income, but will generally reduce the adjusted cost base of the Unitholder's Trust Units. 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 to zero. Any losses of the Fund for purposes of the Tax Act cannot be allocated to, and cannot be treated as a loss of, a Unitholder.

Provided that appropriate designations are made by the Fund, such portion of (i) the net realized taxable capital gains of the Fund, (ii) the income of the Fund from foreign sources, and (iii) the taxable dividends received or deemed to be received by the Fund 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 for purposes of the Tax Act. To the extent that the Fund so designates its income from a foreign source in respect of a Unitholder, the Unitholder will, for the purposes of computing its foreign tax credits, be entitled to treat the Unitholder's proportionate share of foreign taxes paid by the Fund in respect of such income as foreign taxes paid by the Unitholder. The availability of foreign tax credits in respect of foreign source income designated to a Unitholder by the Fund is subject to the foreign tax credit rules under the Tax Act and the Unitholder's particular circumstances. Investors should consult their own tax advisors in this regard. To the extent that amounts are designated as taxable dividends from taxable Canadian corporations, the gross-up and dividend tax credit rules will apply, including the enhanced gross-up and dividend tax credit rules in respect of eligible dividends paid by taxable Canadian corporations.

Under the Tax Act, the Fund is permitted to deduct in computing its income for a taxation year an amount that is less than the amount of its distributions for the year. This will enable the Fund to utilize, in a taxation year, losses from prior years without affecting the ability of the Fund to distribute its income annually. The amount distributed to a Unitholder but not deducted by the Fund will not be included in the Unitholder's income. However, the adjusted cost base of the Unitholder's Trust Units will be reduced by such amount. 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 to zero.

On the disposition or deemed disposition of a Trust Unit (whether on a sale, redemption or otherwise), the Unitholder will realize a capital gain (or capital loss) to the extent that the Unitholder's proceeds of disposition exceed (or are less than) the aggregate of the adjusted cost base of the Trust Unit and any reasonable costs of disposition. If, at any time, the Fund delivers securities from the Portfolio to any Unitholder upon a redemption of a Unitholder's Trust Units on the termination of the Fund, the Unitholder's proceeds of disposition of the Trust Units will generally be equal to the aggregate of the fair market value of the distributed property and the amount of any cash received, less any capital gain realized by the Fund on the disposition of such distributed property. The cost of any property distributed by the

Fund in specie will generally be equal to the fair market value of such property at the time of the distribution. Such securities may or may not be qualified investments for plan trusts. If such securities are not qualified investments for plan trusts, such plan trusts (and, in the case of certain plan trusts, the annuitants or beneficiaries thereunder or holders thereof) may be subject to adverse tax consequences including, in the case of registered education savings plans, revocation of such plan trusts.

For the purpose of determining the adjusted cost base of Trust Units to a Unitholder, when Trust Units are acquired, the cost of the newly acquired Trust Units will be averaged with the adjusted cost base of all Trust Units owned by the Unitholder as capital property immediately before that time. The cost of Trust Units acquired as a distribution of income or capital gains from the Fund will generally be equal to the amount of the distribution. A consolidation of Trust Units following a distribution paid in the form of additional Units will not be regarded as a disposition of Trust Units. See “Attributes of the Units, Trust Units and Warrants — Trust Units”.

If the Conversion from a closed-end mutual fund to an open-end mutual fund occurs by way of a conversion, the Conversion will not result in a disposition of Trust Units by the Unitholders. If the Conversion to an open-end mutual fund occurs by way of a merger on a tax-deferred basis, the disposition by a holder of units of the terminating fund in exchange for units of the continuing fund will not result in the realization of a capital gain or capital loss for such holder. Such holder will be deemed to acquire units of the continuing fund under the merger at a cost equal to the “**cost amount**” (as defined in the Tax Act) of his or her units of the terminating fund.

One-half of any capital gain (a “taxable capital gain”) realized on the disposition of Trust Units will be included in the Unitholder’s income and one-half of any capital loss (an “allowable capital loss”) realized may be deducted from taxable capital gains of the Unitholder for that year. Allowable capital losses for a taxation year in excess of taxable capital gains 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 in accordance with the provisions of the Tax Act.

In general terms, net income of the Fund paid or payable to a Unitholder that is designated as taxable dividends from taxable Canadian corporations or as net realized taxable capital gains as well as taxable capital gains realized by the Unitholders on the disposition of Trust Units may increase the Unitholder’s liability for alternative minimum tax.

### **The Exchange Option**

A purchaser who disposes of securities of an Exchange Eligible Issuer (“**Exchanged Securities**”) held as capital property pursuant to the Exchange Option will realize a capital gain (or a capital loss) in the taxation year of the purchaser in which the disposition of Exchanged Securities takes place to the extent that the proceeds of disposition for such Exchanged Securities, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the purchaser of such Exchanged Securities. For this purpose, the proceeds of disposition to the purchaser will equal the aggregate of the fair market value of the Units received and the amount of any cash received in lieu of fractional Units. The cost to a purchaser of Units so acquired will be equal to their fair market value at the time of exchange.

A purchaser who realizes a capital gain or capital loss upon the disposition of Exchanged Securities will be required to include in computing the purchaser’s income one-half of any such capital gain (“**taxable capital gain**”) and generally will be entitled to deduct one-half of any such capital loss (an “**allowable capital loss**”) against taxable capital gains realized in the year of disposition. Subject to detailed rules in the Tax Act, allowable capital losses in excess of taxable capital gains in the year of disposition may be applied to reduce net taxable capital gains of the purchaser in any of the three years preceding the year of disposition or in any year following the year of disposition.

Taxable capital gains realized by a purchaser may give rise to alternative minimum tax depending on the purchaser's circumstances.

### **Taxation of Registered Plans**

Amounts of income and capital gains included in a plan trust's income are generally not taxable under Part I of the Tax Act, provided that the Trust Units are qualified investments for the plan trust. See "Income Tax Considerations — Status of the Fund". Unitholders should consult their own advisors regarding the tax implications of establishing, amending, terminating or withdrawing amounts from a plan trust.

Provided that the holder of a tax-free savings account does not hold a significant interest (as defined in the Tax Act) in the Fund or any person or partnership that does not deal at arm's length with the Fund within the meaning of the Tax Act, and provided that such holder deals at arm's length with the Fund within the meaning of the Tax Act, the Trust Units and the Warrants will not be prohibited investments for a trust governed by such tax-free savings account. Holders of a tax-free savings account should consult their own tax advisors in this regard.

### **Tax Implications of the Fund's Distribution Policy**

The NAV per Trust Unit will reflect any income and gains of the Fund that have accrued or have been realized but have not been made payable at the time Trust Units are acquired. A Unitholder who acquires Trust Units may become taxable on the Unitholder's share of income and gains of the Fund that accrued before the Trust Units were acquired notwithstanding that such amounts may have been reflected in the price paid by the Unitholder for the Trust Units. Since the Fund intends to make monthly distributions as described under "Distribution Policy", the consequences of acquiring Trust Units late in a calendar year will generally depend on the amount of monthly distributions throughout the year and whether one or more special distributions to Unitholders are necessary late in the calendar year to ensure that the Fund will not be liable for income tax on such amounts under the Tax Act.

## **ORGANIZATION AND MANAGEMENT DETAILS OF THE FUND**

### **Manager of the Fund**

The Manager will perform the management functions of the Fund pursuant to the Management Agreement. The Manager is a company incorporated pursuant to the laws of Ontario. The municipal address of the Manager where it principally provides services to the Fund is located at 710 Dorval Drive, Suite 200, Oakville, Ontario L6K 3V7.

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

Pursuant to the Management Agreement, Harvest is the manager of the Fund and, as such, is responsible for delegating all investment decisions of the Fund in accordance with the investment objectives, strategy and restrictions and for arranging for the execution of all Portfolio transactions and managing and administering the day-to-day business and affairs of the Fund. The Manager may delegate certain of its powers to third parties, where, in the discretion of the Manager, it would be in the best interests of the Fund to do so. The Manager's duties include, without limitation: authorizing the payment of operating expenses incurred on behalf of the Fund; preparing financial statements and financial and accounting information as required by the Fund; ensuring that Unitholders are provided with financial statements (including semi-annual and annual financial statements) and other reports as are required by applicable law from time to time; ensuring that the Fund complies with regulatory requirements and applicable stock exchange listing requirements; preparing the Fund's reports to Unitholders and the Canadian securities regulatory authorities; determining the amount of distributions to be made by the

Fund; and negotiating contractual agreements with third party providers of services, including registrars, transfer agents, auditors and printers.

The Manager will retain the Investment Manager to provide investment advisory and portfolio management services with respect to the Portfolio and will monitor the Fund's investment strategy and ensure compliance with the Fund's investment restrictions.

### **Details of the Management Agreement**

Pursuant to the Management Agreement, the Manager is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Fund and to exercise the care, diligence and skill of a reasonably prudent person in the circumstances. The Management Agreement provides that the Manager will not be liable in any way for any default, failure or defect in the Portfolio held by the Fund 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, disregard of the Manager's standard of care or by any material breach or default by it of its obligations under the Management Agreement.

Unless the Manager resigns or is removed as described below, the Manager will continue as Manager until the termination of the Fund. The Manager may resign if the Fund is in breach or default of the provisions of the Management Agreement and, if capable of being cured, any such breach or default has not been cured within 30 days' notice of such breach or default to the Fund. The Manager is deemed to have resigned if the Manager: (i) becomes bankrupt or insolvent; (ii) in the event the Manager ceases to be resident in Canada for the purposes of the Tax Act; or (iii) no longer holds the licenses, registrations or other authorizations necessary to carry out its obligations and is unable to obtain them within a reasonable period after their loss. The Manager may resign as manager of the fund upon 60 days notice to the Unitholders. The Manager may not be removed other than by a meeting of the Unitholders as described under the heading "Unitholder Matters". In the event that the Manager is in material breach or default of the provisions of the Management Agreement and, if capable of being cured, any such breach or default has not been cured within 30 days' notice of such breach or default to the Manager, the Trustee shall give notice thereof to Unitholders and Unitholders may direct the Trustee to remove the Manager and appoint a successor Manager.

The Management Agreement may not be terminated by the Fund without the consent of the Manager unless the Manager is in material breach of the Management Agreement and the material breach where capable of being cured has not been cured within 30 Business Days after such material breach.

The Manager will be reimbursed by the Fund for all reasonable costs and expenses incurred by the Manager on behalf of the Fund as described under "Fees and Expenses — Ongoing Fees and Expenses". In addition, the Manager and each of its directors, officers and employees will be indemnified by the Fund for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced, or other claim that is made against, the Manager, or any of its directors, officers or employees, in the exercise of its duties as Manager, except those resulting from the Manager's wilful misconduct, bad faith, negligence, disregard of the Manager's standard of care or material breach or default by the Manager of its obligations under the Management Agreement.

## Officers and Directors of the Manager of the Investment Fund

The name and municipality of residence of each of the directors, applicable officers and senior management of the Manager and their principal occupation are as follows:

<u>Name and Municipality of Residence</u>	<u>Office</u>	<u>Principal Occupation</u>
MICHAEL KOVACS . . . . . Oakville, Ontario	President and Chief Executive Officer, Chairman, Executive Board Member and Director	President and Chief Executive Officer, Harvest Portfolios Group Inc.
TOWNSEND HAINES . . . . . Toronto, Ontario	Chief Financial Officer, Executive Board Member and Director	Chief Financial Officer, Harvest Portfolios Group Inc.
NICK BONTIS . . . . . Ancaster, Ontario	Executive Board Member and Director	Associate Professor, Strategic Management & Director, Undergraduate Programs DeGroote School of Business, McMaster University

The following is a brief description of the background of the key management of Harvest.

### ***Michael Kovacs, President and Chief Executive Officer***

Michael is the founder of Harvest Portfolios Group Inc. and a 25 year veteran of the Investment management business. Since 1991 he has held senior management positions with 4 companies, the latest as Managing Director of Sentry Select Mutual Funds and Senior Vice President of Sentry Select Capital Inc. from 2002 - 2009. He was a Vice President with Guardian Capital Group from 1991 - 1995, Vice President of National Sales with AIC Funds from 1995 - 2000 and Vice President of Distribution with ING Funds from 2000 - 2002. In 1983 he obtained his BA from York University, and has also completed the Canadian Securities Course, Canadian Options Course, Canadian Branch Managers Course and the Officers, Partners and Directors exam.

### ***Townsend Haines, Chief Financial Officer and Executive Managing Director***

Townsend has developed extensive experience in sales, sales management, product development and strategic planning during his 30 years in the investment industry. Townsend has been Vice President of Sales at AGF, Guardian Group of Funds, Franklin Templeton and the Executive Director of Global Strategy. Townsend's board and committee memberships have included the Investment Funds Institute of Canada, University of Western Ontario Senate and Board of Governors and the Board of Trustees of the Toronto School of Theology at University of Toronto. He is currently a member of the Investment Committee of the Board of Regents of Victoria University at University of Toronto. Townsend holds a Bachelor of Economics from the University of Western Ontario, and a Masters of Theological Studies degree from the University of Toronto. He has also successfully completed numerous industry courses including CFA Level I, the Partners, Directors and Senior Officers Qualifying Examination. Townsend has held various registrations and designations including Compliance Officer, Senior Officer, Senior Portfolio Manager and the Charter Financial Planner designation.

### ***Dr. Nick Bontis, Executive Board Member and Director***

Dr. Nick Bontis is a tenured professor of strategic management at the DeGroote School of Business, McMaster University. He received both his Bachelor of Arts in 1992 (Honours Business Administration) and his PhD from the Ivey School of Business at The University of Western Ontario in 1999. His doctoral dissertation on the mutual fund industry went on to become the #1 selling thesis in Canada. He has won

over a dozen major teaching awards and the faculty researcher of the year twice. Maclean's magazine has rated him as one of McMaster's most popular professors for six years. He is also a 3M National Teaching Fellow, an honour bestowed upon the top university professors in the country. Prior to his career in academia, Dr. Bontis was a securities analyst at CIBC Securities Inc.

### **The Investment Manager**

The Manager has retained Avenue to provide investment management services to the Fund. Avenue was formed in 2002 and has focused on the private client market. Avenue was founded by three investment management professionals; Paul Harris, CFA, Paul Gardner, CFA and Bill Harris, CFA, each with over 20 years of experience, who have managed assets or businesses for leading financial institutions in Toronto, Montreal and New York.

Avenue describes its investment methodology as follows:

- finding well-managed issuers that have a competitive advantage in their market;
- determining if the issuer's intrinsic value is at a discount to its market value;
- opportunistically buying when these discounts exist; and
- holding the position until the company no longer meets the valuation criteria.

Generally, an issuer's securities will be reviewed to sell if and when:

- underlying fundamentals have changed;
- unfavourable changes in management occur;
- changes occur in the competitive or regulatory environment;
- intrinsic value is achieved; or
- risk/reward profile does not warrant increasing the investment.

As of March 31, 2010, Avenue had assets under management of approximately \$140 million and has focused its efforts on private investment management for high net worth clients. Avenue also manages the Harvest Banks & Buildings Income Fund.

### **Details of the Investment Management Agreement**

The Investment Manager provides investment advisory and portfolio management services to the Fund with respect to the Portfolio pursuant to the Investment Management Agreement. Decisions regarding the purchase and sale of Portfolio securities and the execution of transactions for the Portfolio will be made by the Investment Manager, in accordance with and subject to the terms of the Investment Management Agreement. Subject to the terms of the Investment Management Agreement, the Investment Manager will implement the investment strategy for the Portfolio on an ongoing basis.

Under the Investment Management Agreement, the Investment Manager covenants to act at all times on a basis which is fair and reasonable to the Manager and the Fund, to act honestly and in good faith with a view to the best interests of the Fund and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances. The Investment Management Agreement provides that the Investment Manager will not be liable in any way to the parties indemnified under the Investment Management Agreement for any default, failure or defect in any of the securities comprising the Portfolio if it satisfied the standard of care, diligence and skill set forth above. The Investment Management Agreement further provides that the Investment Manager will not be liable for any losses in the NAV of the Fund if it has satisfied the standard of care, diligence and skill set forth above. Pursuant to the Investment Management Agreement, the Investment Manager and its officers,

directors and employees shall be indemnified, from the assets of the Fund, against all losses (other than loss of profits), expenses and liabilities incurred by any of them in connection with any matter relating to their respective duties under the Investment Management Agreement, unless any such indemnified person is finally adjudicated to have committed a material breach or default of its obligations under the Investment Management Agreement or an act or omission involving wilful misconduct, bad faith, negligence or reckless disregard of such person's duties under the Investment Management Agreement. Under the Investment Management Agreement, the Investment Manager will be responsible for any loss to the Fund that arises out of Investment Manager's failure to exercise the powers and discharge its duties in good faith and in the best interests of the Fund or its failure to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances.

The Investment Manager or Manager may terminate the Investment Management Agreement in the following circumstances: (i) upon not less than 90 days written notice to the other party; or (ii) by written notice taking immediate effect if the other party is in breach of any of the terms of the Agreement and has not remedied the breach within 30 days of receipt of written notice requiring the breach to be remedied.

The Investment Management Agreement shall terminate immediately if any of the following events take place: (i) in the event the Avenue or Harvest is subject to a material regulatory issue that would affect the ability of the Avenue or Harvest to fulfill its obligations under the Investment Management Agreement or if Avenue is unable to provide the investment management services contemplated in this Agreement or in any applicable underlying investment management agreements; (ii) in the event that Avenue or Harvest become bankrupt, or a petition for bankruptcy is filed against either party and such petition is not dismissed within 60 days; or (iii) or in the event that Avenue or Harvest makes any assignment for the benefit of its creditors, files any notice under or takes any other benefits of any insolvency law, or if a receiver is appointed for Avenue or Harvest.

Any termination of this Investment Management Agreement shall not affect the liability of the parties in respect of any action undertaken before such notice was given. During the time period between the date notice of termination is given and the effective date of termination, Avenue agrees to continue to provide investment advisory or management services to the Fund to the best of its ability in accordance with the standard of care set out above.

The Manager is responsible for payment of the investment management fees of the Investment Manager out of the Management Fee. See "Fees and Expenses — Ongoing Fees and Expenses".

The following is a brief description of the background of the key management of Avenue:

**Paul A. M. Harris, CFA** is a partner and a portfolio manager for the Equity Portfolio and the Fixed Income Portfolio. Mr. Harris has more than 20 years of investment experience. Prior to co-founding Avenue Investment Management Inc. in 2002, Mr. Harris worked in New York for Fiduciary Trust International as a senior portfolio manager focusing on global equity portfolios for institutional clients from 2000 to 2002. Before joining Fiduciary Trust International, Mr. Harris was with TD Asset Management for 8 years, where he was a senior portfolio manager of the Greenline Dividend Fund, the Greenline Small-Cap Fund and the TD Bank pension fund. In addition, Mr. Harris was an equity analyst covering financial services and technology globally. Mr. Harris received a B.A. from the University of Toronto in 1986. He became a Chartered Financial Analyst in 1994. He is a member of the New York Society of Financial Analysts and A.I.M.R.

**Paul Gardner, CFA** is a partner and a portfolio manager for the Equity Portfolio and the Fixed Income Portfolio. Mr. Gardner has more than 20 years experience in the investment industry. Prior to co-founding Avenue Investment Management Inc., Mr. Gardner was at TD Asset Management as a senior portfolio manager of the TD Canadian Bond Fund and several of TD's domestic fixed income funds. Much of his expertise has been in corporate debt analysis. Before joining TD Asset Management, Mr. Gardner worked at TD Securities, as Chief Dealer money markets. Prior to that, he was a foreign exchange trader with

TD Bank. Mr. Gardner received his B.A. from York University in 1986. He became a Chartered Financial Analyst in 1991. He is a member of the Toronto Society of Financial Analysts and A.I.M.R.

**Bill Harris, CFA** is a partner and a portfolio manager for the Equity Portfolio and the Fixed Income Portfolio. Mr. Harris has over 20 years of experience in the investment industry. Prior to joining Avenue Investment Management Inc. in 2004, Mr. Harris was at Sentry Select Capital as a portfolio manager for their resource group of funds from 2002 to 2004. His responsibilities included managing mutual funds, limited partnerships and exchange traded funds that specialized in oil and gas, mining and alternative energy investments. From 1999-2002, Mr. Harris was at TD Asset Management as the senior energy and mining analyst for the Precious Metals, Resources and Energy Funds. From 1992-1999, he was the Canadian equity trader for the Active equity group at TD Asset Management. Mr. Harris received a BA in economics from Dalhousie University in 1990. He became a Chartered Financial Analyst in 1998 and is a member of the Toronto Society of Financial Analysts.

**Faroukh E. Kanga** is a partner with Avenue Investment Management Inc. Mr. Kanga has over 20 years experience in the financial services industry. Prior to joining Avenue Investment Management in 2008, Mr. Kanga acted as a Managing Director at TD Securities, part of TD Bank Financial Group from 1986 to 2006. His responsibilities included the national mandate for origination, trading and sales of short-term capital market products, the management of the national Foreign Exchange and Money Market distribution teams and the management of the Quebec and Atlantic Canada Money Market distribution team. Mr. Kanga received an Honours BA in political philosophy and communications from the University of Toronto in 1984.

### **Conflicts of Interest**

The management services of Harvest under the Management Agreement are not exclusive and nothing in the Management Agreement prevents Harvest from providing similar management services to other investment funds and other clients (whether or not their investment objectives and policies are similar to those of the Fund) or from engaging in other activities. Investments in securities purchased by the Manager on behalf of the Fund and other investment funds or trusts managed by the Manager will be allocated to the Fund and such other investment funds or trusts on a pro-rata basis according to the size of the order and the applicable investment restrictions and policies of the Fund and the other investment funds or trusts.

The Declaration of Trust and the Management Agreement acknowledge that the Trustee and the Manager may provide services to the Fund in other capacities, provided that the terms of any such arrangements are no less favourable to the Fund than those which would be obtained from parties which are at arm's length for comparable services. The Trustee may act as trustee of, and provide services to, issuers of securities, including issuers of securities in which the Fund has invested or may invest.

### **Independent Review Committee**

In accordance with NI 81-107, the Manager has appointed an Independent Review Committee (“**IRC**”) for the Fund and the mutual funds managed by it. The IRC is composed of three individuals, each of whom is independent of the Manager, the Fund and entities related to the Manager. The members of the IRC are Jane Davis, Don Hathaway and Adam Conyers. The Manager is required to identify conflict of interest matters inherent in its management of the Fund and request input from the IRC in respect of how it manages those conflicts of interest, as well as its written policies and procedures outlining its management of those conflicts of interest. The IRC has adopted a written charter that it follows when performing its functions and is subject to requirements to conduct regular assessments. The mandate and responsibilities of the IRC are to consider and make a recommendation or approval, as applicable, with respect to any conflict of interest matter referred to it by the Manager. The IRC will prepare, at least annually, a report of its activities for Unitholders. This report will be available on the Harvest's website at [www.harvestportfolios.com](http://www.harvestportfolios.com) or at the Unitholder's request, at no

cost, by contacting Harvest at 1-866-998-8298. Information contained on the Manager's website is not part of this prospectus and is not incorporated by reference.

The members of the IRC will be indemnified by the Manager and the Fund, in keeping with NI 81-107. The IRC members will not be responsible for the investments made by the Fund, or for the performance of the Fund. The members of the IRC may serve in a similar capacity in respect of other funds managed by the Manager. The Fund's pro rata share of all fees and expenses of the IRC (which are currently anticipated to be \$25,000 per annum) will be paid by the Fund and the regular fees and expenses of the IRC (based on the amounts agreed by the Manager for the first year) have been included in the Fund's estimated annual operating expenses (see "Fees and Expenses"). In future years the IRC members will set their own compensation in accordance with NI 81-107. In addition, the IRC has the authority, pursuant to NI 81-107 to retain independent counsel or other advisors, at the expense of the Fund, if the members deem it necessary to do so.

### **The Trustee**

The Manager is the trustee of the Fund under the Declaration of Trust, and is responsible for managing all of the Fund's activities. The address of the Trustee where it principally provides services to the Fund is at 710 Dorval Drive, Suite 200, Oakville, Ontario L6K 3V7.

Pursuant to the Declaration of Trust, Harvest is the trustee of the Fund (the "**Trustee**") and will be responsible for certain aspects of the day-to-day administration of the Fund as described in the Declaration of Trust.

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

The Declaration of Trust will provide that the Trustee shall not be liable in carrying out its duties under the Declaration of Trust except where it is in breach of its obligations under the Declaration of Trust or where the Trustee fails to act honestly and in good faith, and in the best interests of Unitholders to the extent required by laws applicable to trustees, 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 will contain other customary provisions limiting the liability of the Trustee and indemnifying the Trustee, or any of its officers, directors, employees or agents, in respect of certain liabilities incurred by it in carrying out its duties.

### **The Custodian**

State Street Trust Company Canada ("**State Street**") will be appointed as the custodian and valuation agent of the Fund pursuant to separate custodian and valuation agreements between the Fund and State Street. The custodian's principal place of business in respect of the Fund is Toronto, Ontario. In accordance with the terms of the custodian agreement (the "**Custodian Agreement**"), the custodian will be responsible for the safekeeping of all of the investments and other assets of the Fund delivered to it but not those assets of the Fund not directly controlled or held by the custodian as the case may be. In the event

that any portfolio assets are acquired by the Fund that cannot be held in Canada, the custodian may appoint sub-custodians who are qualified to act as such.

In carrying out its duties, the custodian is required to exercise:

- (a) the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances, or
- (b) at least the same degree of care which it gives to its own property of a similar kind under its custody, if this is a higher degree of care than in paragraph (a) above.

Except to the extent the Custodian has not complied with its standard of care, the Custodian will not be liable for any act or omission in the course of, or connected to, rendering services under the Custodian Agreement or for loss to, or diminution of, the Fund's property. In no event shall the custodian be liable for any consequential or special damages. The Fund shall indemnify and save harmless the custodian, and its affiliates, subsidiaries and agents, and their directors, officers, and employees from and against all legal fees, judgments and amounts paid in settlement incurred by such indemnified parties in connection with custodial services provided under the Custodian Agreement except to the extent incurred as a result of breach of the above standard of care.

The Custodian Agreement provides that it may be terminated by either party at any time on 60 days' written notice unless a different period is agreed to. Either party may terminate the Custodian Agreement immediately in the event that either party is declared bankrupt or shall be insolvent, the assets or the business of either party shall become liable to seizure or confiscation by a public or governmental authority, or the Manager's powers and authorities to act on behalf of or represent the Fund have been revoked or terminated.

In addition, State Street will be responsible for providing valuation services to the Fund and will calculate the NAV and NAV per Trust Unit pursuant to the terms of a separate valuation service agreement. See "Calculation of Net Asset Value".

State Street will receive fees for custodial and valuation services provided to the Fund as described above.

#### **Promoter**

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

#### **Auditor**

The Fund's auditors are PricewaterhouseCoopers LLP, Chartered Accountants who have prepared an independent auditors' report dated May 31, 2010, in respect of the Fund's statement of financial position as at May 31, 2010. PricewaterhouseCoopers LLP has advised that they are independent with respect to the Fund within the meaning of the rules of professional conduct of the Institute of Chartered Accountants of Ontario.

#### **Registrar and Transfer Agent**

Equity Transfer & Trust Company will be appointed the registrar and transfer agent for the Units, Trust Units and the Warrants.

## CALCULATION OF NET ASSET VALUE

The NAV on a particular date will be equal to the aggregate value of the assets of the Fund less the aggregate value of the liabilities of the Fund, expressed in Canadian dollars at the applicable exchange rate on such date. The NAV will be calculated using the fair value of the Fund's assets and liabilities. The NAV per Trust Unit on any day will be obtained by dividing the NAV of the Fund on such day by the number of Trust Units then outstanding; provided however, that where as a result of such calculation the basic NAV per Trust Unit is greater than \$11.70 then a diluted NAV per Trust Unit will be calculated. The diluted NAV per Trust Unit shall be calculated by adding to the denominator the total number of Trust Units issuable pursuant to the exercise of the Warrants, then outstanding and by adding to the numerator the product of such number of Warrants and the net proceeds realized by the Fund pursuant to the exercise of the Warrants. The diluted NAV per Trust Unit shall be deemed to be the resulting quotient.

### Valuation Policies and Procedures of the Fund

Unless otherwise required by law, the value of the assets held by the Fund is determined as follows:

- (a) the value of any cash on hand or on deposit, bills, demand notes, accounts receivable, prepaid expenses, cash dividends received (or to be received and declared to shareholders of record on a date before the date as of which the net asset value is being determined), and interest accrued and not yet received, shall be deemed to be the full amount thereof unless the Manager shall have determined that any such deposit, bill, demand note, account receivable, prepaid expense, cash dividend received or interest is not worth the full amount thereof, in which event the value thereof shall be deemed to be such value as the Manager shall determine to be the reasonable value thereof;
- (b) the value of any security which is listed or dealt in upon a stock exchange shall be determined by (a) in the case of a security which was traded on the day as of which the Net Asset Value is being determined, the closing sale price; (b) in the case of a security which was not traded on the day as of which the Net Asset Value is being determined, a price which is the average of the closing recorded bid and asked prices; or (c) if no bid or asked quotation is available, the price last determined for such security for the purpose of calculating the Net Asset Value. The value of interlisted securities shall be computed in accordance with directions laid down from time to time by the Manager; and provided however that if, in the opinion of the Manager, stock exchange or over the counter quotations do not properly reflect the prices which would be received by the Fund upon the disposal of shares or securities necessary to effect any redemptions of securities, the Manager may place such value upon such shares or securities as appears to the Manager to most closely reflect the fair value of such shares or securities;
- (c) the value of any security, the resale of which is restricted or limited by reason of a representation, undertaking or agreement by the Fund or by the predecessor in title of the Fund, shall be the lesser of (a) the value based on reported quotation in common use and (b) that percentage of the market value of securities of the same class, the resale of which is not restricted or limited by reasons of any representation, undertaking or agreement, equal to the percentage that the acquisition cost of the Fund was of the market value of such securities at the time of acquisition, provided that a gradual taking into account of the actual value of the securities may be made when the date on which the restrictions will be lifted is known;
- (d) the value of all assets of the Fund valued in terms of a currency other than Canadian currency and liabilities payable in a currency other than Canadian currency shall be translated to Canadian currency using the closing rate of exchange as quoted by customary banking sources on the date of valuation;

- (e) each transaction of purchase or sale of portfolio securities effected by the Fund shall be reflected in the computation of the Net Asset Value of the Fund not later than the first computation of the Net Asset Value of the Fund made after the date on which the transaction becomes binding; and
- (f) the issue or redemption of Trust Units of the Fund shall be reflected in the computation of the Net Asset Value not later than the next computation of the Net Asset Value or series made after the time of the issue or redemption of the Trust Units of the Fund.

The liabilities of the Fund include:

- (a) all bills and accounts payable;
- (b) all administrative expenses payable and/or accrued;
- (c) all obligations for the payment of money or property, including the amount of any declared but unpaid distributions;
- (d) all allowances authorized or approved by the Manager for taxes or contingencies; and
- (e) all other liabilities of the Fund of whatever kind and nature, except liabilities represented by outstanding Trust Units.

Harvest may suspend the calculation of the Net Asset Value when the right to redeem a Trust Unit is suspended. See “Redemption of Trust Units — Suspension of Redemptions”. During any period of suspension there will be no calculation of the Net Asset Value and the Fund will not be permitted to issue or redeem any Trust Unit. The calculation of the Net Asset Value will resume when trading in the Fund’s securities resumes.

Except as described below, National Instrument 81-106 — Investment Fund Continuous Disclosure (“NI 81-106”) requires an investment fund, such as the Fund, to calculate its net assets in accordance with Canadian GAAP. Canadian GAAP was modified by the introduction of section 3855 *Financial Instruments — Recognition and Measurement of the handbook of the Canadian Institute of Chartered Accountants*. Section 3855 defines fair value as being the closing bid price for long positions and the closing ask price for short positions, in lieu of the closing or last trade price for all positions. Therefore, the combined effect of NI 81-106 and section 3855 would require the Fund to determine the value of securities listed on a recognized public securities exchange or on NASDAQ using the fair value as defined by section 3855. However, since September 8, 2008, NI-81-106 permits investment funds, such as the Fund, to calculate its net asset value in accordance with Canadian GAAP without giving effect to section 3855 for purposes other than issuing annual or interim financial statements, such as the issue and redemption of Trust Units.

### **Reporting of Net Asset Value**

Prior to the Conversion Date, the NAV, the NAV per Trust Unit and diluted NAV per Trust Units, if applicable, will be calculated on each Thursday (or if a Thursday is not a Business Day, the Business Day following such Thursday). On or after the Conversion Date, the NAV per Trust Unit will be calculated on each Business Day. Such information will be provided by the Manager to the Unitholders on request by calling toll-free 1-866-998-8298 or daily via the internet at [www.harvestportfolios.com](http://www.harvestportfolios.com), as applicable.

## WARRANT CONSIDERATIONS

Each investor in this Offering will purchase Units and each Unit consists of one Trust Unit and one Warrant. Following the closing of the Offering and the separation of the Units, the Trust Units and the Warrants may be dealt with separately by the investor with the result that the investor may retain both securities or may elect to sell some or all of their Trust Units or Warrants.

The value of Trust Units will be reduced if the NAV per Trust Unit exceeds \$11.70 (being the Warrant exercise price less the Warrant exercise fee of \$0.30 in the aggregate — see “Fees and Expenses — Warrant Exercise Fee”) and Warrants are exercised. If the NAV per Trust Unit exceeds \$11.70 then a Unitholder will face dilution of its investment. If a Unitholder does not exercise Warrants in such circumstances, the Unitholder’s pro rata interest in the assets of the Fund will be diluted.

As the number of Warrants equal the number of Trust Units, the potential dilution per Trust Unit is up to one-half of all gains in the NAV per Trust Unit of the Fund in excess of \$11.70. The potential dilution per Trust Unit, assuming the Warrants are exercised in full, is illustrated in the following table:

### Pro Forma Dilution Per Unit

Non-diluted NAV of the Fund before the exercise of Warrants

\$13.00	\$13.50	\$14.00	\$14.50
\$0.65	\$0.90	\$1.15	\$1.40

**Due to the dilutive effect on the value of the Trust Units when Warrants are exercised, an investor in this Offering should carefully consider the exercise of the Warrants or the sale of the Warrants prior to the Warrant Expiry Time and the failure to take either such action in these circumstances will result in the loss of value to an investor. In order to maintain a Unitholder’s pro rata interest in the assets of the Fund, the Unitholder would be required to pay in connection with the exercise of the Warrants an additional amount equal to the amount originally invested by the Unitholder on the Closing Date. While a Unitholder may sell the Warrants acquired hereunder, no assurance can be given that the proceeds of such sale would compensate the Unitholder for such dilution. The factors that would be expected to influence the price of a Warrant include the difference between the Exercise Price and the fully diluted NAV per Unit, price volatility, distributions payable on the Trust Units and the remaining time to expiry of the Warrant.**

The NAV per Trust Unit on any day will be obtained by dividing the NAV of the Fund on such day by the number of Trust Units then outstanding; provided, however, that where as a result of such calculation on the basic NAV per Trust Unit is greater than \$11.70 then a diluted NAV per Trust Unit will be calculated. The diluted NAV per Trust Unit shall be calculated by adding to the denominator the total number of Trust Units issuable pursuant to Warrants then outstanding and by adding to the numerator the product of such number of Warrants and the net proceeds realized by the Fund pursuant to the exercise of the Warrants. See “Calculation of Net Asset Value”.

## ATTRIBUTES OF THE UNITS, TRUST UNITS AND WARRANTS

### Units

Each purchaser will purchase Units and each Unit consists of one Trust Unit and one Warrant. The Units will separate into Trust Units and Warrants upon the earlier of the closing of the Over-Allotment Option and the 30th day following the closing of the Offering.

### Trust Units

The Fund is authorized to issue an unlimited number of Trust Units.

Except as provided under “Unitholder Matters — Non-Resident Unitholders”, all Trust Units have equal rights and privileges. Each Trust Unit is entitled to one vote at all meetings of Unitholders and is entitled to participate equally with respect to any and all distributions made by the Fund, including distributions of net income and net realized capital gains, and distributions upon the termination of the Fund. Trust Units are issued only as fully paid and are non-assessable. Trust Units will only be issued through the book-entry only system administered by CDS as described below.

The Declaration of Trust provides that the Fund may not issue additional Trust Units following completion of the Offering, and prior to the Conversion Date, except: (i) at a price that yields net proceeds of not less than 100% of NAV per Trust Unit calculated as of the close of business on the Business Day immediately prior to the pricing of such offering; (ii) by way of Trust Unit distributions; (iii) with the approval of Unitholders; or (iv) upon the exercise of the Warrants. Immediately after a pro rata distribution of Trust Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Trust Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Trust Units as the Unitholder held before the non-cash distribution, except in the case of a non-resident Unitholder to the extent tax was required to be withheld in respect of the distribution.

Registration of interests in and transfers of the Units and Trust Units will be made only through the book-entry only system of CDS. As a result, the Fund will deliver to CDS a certificate evidencing the aggregate number of Trust Units immediately following the closing of the Offering. Trust Units must be purchased, transferred and surrendered for retraction only through a CDS Participant. All rights of an owner of Trust Units must be exercised through, and all payments or other property to which such owner is entitled will be made or delivered by, CDS and the CDS Participant through which the owner holds such Trust Units. Upon purchase of any Trust Units, the owner will receive only the customary confirmation. References in this prospectus to a holder of Trust Units means, unless the context otherwise requires, the owner of the beneficial interest in such Trust Units.

Neither the Fund, the Trustee, the Custodian, the Manager, the Investment Manager, nor the Agents will have any liability for (i) records maintained by CDS relating to the beneficial interests in the Trust Units or the book-entry only accounts maintained by CDS; (ii) maintaining, supervising or reviewing any records relating to such beneficial ownership interests; or (iii) any advice or representation made or given by CDS and made or given with respect to the rules and regulations of CDS or any action taken by CDS or at the direction of the CDS Participants.

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

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

### **Market Purchases**

The Fund may purchase Trust Units through the facilities of the TSX if the Manager determines that such purchases are in the best interest of the Fund. Purchases of Trust Units by the Fund will be subject to compliance with any applicable regulatory requirements and limitations.

### **Warrants**

The following is a summary only and subject to, and is qualified in its entirety by reference to, the detailed provisions in the Warrant Indenture to be dated the date of the closing of the Offering between the Fund and the Warrant Agent.

### *Subscription Basis and Warrant Expiry Time*

Each Warrant entitles the holder to purchase one Trust Unit at the subscription price of \$12.00 per Trust Unit by notifying the Warrant Agent during any Warrant Notice Period prior to the Warrant Expiry Date. Such Warrants will be exercised effective as at 5:00 p.m. on the applicable Warrant Exercise Date. Warrants are also exercisable on November 30, 2011 prior to 5:00 p.m. (Toronto time) on that date. Holders who exercise the Warrants will become holders of Trust Units issued through the exercise of the Warrants. **WARRANTS NOT EXERCISED PRIOR TO 5:00 P.M. (TORONTO TIME) ON NOVEMBER 30, 2011 WILL BE VOID AND OF NO VALUE.** As soon as practicable following the exercise of a Warrant, the Fund will pay a fee equal to \$0.18 per Warrant to the broker whose client is exercising the Warrant and \$0.12 per Warrant to the Agents.

### *The Warrant Agent*

The Warrant Agent has been appointed the agent of the Fund to receive subscriptions and payments from holders of Warrants, to act as registrar and transfer agent for the Warrants and to perform certain services relating to the exercise and transfer of Warrants pursuant to the Warrant Indenture. Holders of Warrants desiring to exercise such Warrants and purchase Trust Units should ensure that subscriptions and payment in full of the subscription price therefor is received during the applicable Warrant Notice Period by the Warrant Agent.

### *Delivery Form and Denomination of the Warrants*

All Unitholders hold their Trust Units through a participant (a “CDS Participant”) in CDS Clearing and Depository Services Inc. (“CDS”). As a result, one global warrant certificate representing the Warrants will be issued in registered form to CDS and will be deposited with CDS within 30 days of the closing of the Offering. The Fund expects that each purchaser of Units under the Offering will receive a confirmation of the number of Warrants issued to it from its CDS Participant in accordance with the practices and procedures of that CDS Participant. CDS will be responsible for establishing and maintaining book-entry only accounts for its participants holding Warrants. Certificates evidencing Warrants will not be issued.

None of the Fund, the Manager, the Investment Manager, the Agents or the Warrant Agent will have any liability for (i) the records maintained by CDS or CDS Participants relating to the Warrants or the book-entry only accounts maintained by them, (ii) maintaining, supervising or reviewing any records relating to such Warrants, or (iii) any advice or representations made or given by CDS or CDS Participants with respect to the rules and regulations of CDS or any action to be taken by CDS or its participants.

The ability of a person having an interest in Warrants held through a CDS Participant to pledge such interest or otherwise take action with respect to such interest (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

Holders must arrange purchases or transfers of Warrants through CDS Participants.

### *Subscription Right*

A subscriber may subscribe for the resulting whole number of Trust Units or any lesser whole number of Trust Units by instructing the CDS Participant holding the subscriber’s Warrants to exercise all or a specified number of such Warrants and forwarding \$12.00 per Warrant for each Trust Unit subscribed for in accordance with the terms of this Offering to the CDS Participant which holds the subscriber’s Warrants. Registration of interests in and transfers of the Warrants will be made only through the book-entry only system of CDS.

The subscription price is payable in Canadian funds by certified cheque, bank draft or money order drawn to the order of a CDS Participant, by direct debit from the subscriber’s brokerage account, or by

electronic funds transfer or other similar payment mechanism. All payments must be forwarded to the appropriate office of the CDS Participant. The entire subscription price for Trust Units subscribed for must be paid at the time of subscription and must be received by the Warrant Agent during the applicable Warrant Notice Period. Accordingly, a subscriber subscribing through a CDS Participant must deliver its payment and instructions sufficiently in advance of the applicable Warrant Exercise Date to allow the CDS Participant to properly exercise the Warrants on its behalf. Unitholders are encouraged to contact their broker or other CDS Participant as each CDS Participant may have a different cut-off time.

Payment of the subscription price will constitute a representation to the CDS Participant that the subscriber is not a citizen or resident of the United States of America, its territories or possessions or the agent of any such person and is not purchasing the Trust Units for resale to any such person.

**Subscriptions for Trust Units made through a CDS Participant will be irrevocable and subscribers will be unable to withdraw their subscriptions for Trust Units once submitted.**

**Holders of Warrants who wish to exercise their Warrants and receive Trust Units are reminded that because Warrants must be exercised through a CDS Participant, a significant amount of time may elapse from the date of exercise and the date the Trust Units issuable upon the exercise thereof are issued to the holder.**

#### *Sale or Transfer of Warrants*

Holders of Warrants in Canada may, instead of exercising their Warrants to subscribe for Trust Units sell or transfer their Warrants. Holders of Warrants through CDS Participants who wish to sell or transfer their Warrants must do so in the same manner in which they sell or transfer Trust Units namely, by providing instructions to the CDS Participant holding their Warrants in accordance with the policies and procedures of the CDS Participant.

#### *Dilution to Existing Unitholders*

If a Unitholder wishes to retain its current percentage ownership in the Fund and assuming that all Warrants are exercised, it should purchase all of the Trust Units for which it may subscribe pursuant to the Warrants delivered under the Offering. If that Unitholder does not do so and other holders of Warrants exercise any of their Warrants, that Unitholder's current percentage ownership in the Fund will be diluted.

The subscription rights in effect under the Warrants for Trust Units of the Fund issuable upon the exercise of the Warrants shall be subject to adjustment from time to time if, prior to the Warrant Expiry Time, the Fund shall:

- (a) subdivide, re-divide or change its outstanding Trust Units into a greater number of Trust Units;
- (b) reduce, combine or consolidate its outstanding Trust Units into a smaller number of Trust Units;
- (c) distribute to holders of all or substantially all of the Fund's outstanding Trust Units any securities of the Fund including rights, options or warrants to acquire Trust Units or securities convertible into or exchangeable for Trust Units or property or assets, including evidence of indebtedness (other than in connection with the distribution and exercise of the Warrants);
- (d) reclassify the Trust Units or reorganize the capital of the Fund; or
- (e) consolidate, amalgamate, or merge the Fund with or into any other trust or other entity, or sell or convey the property and assets of the Fund as an entirety or substantially as an entirety (other than in connection with the redemption or retraction of Trust Units).

## UNITHOLDER MATTERS

### Meetings of Unitholders

A meeting of Unitholders may be convened by the Manager at any time and must be convened if requisitioned by the holders of not less than 25% of the Trust Units then outstanding by a written requisition specifying the purpose of the meeting. Prior to the Conversion Date, not less than 21 days' and not more than 50 days' notice will be given of any meeting of Unitholders. The quorum at any such meeting is two Unitholders present in person or by proxy except for the purpose of any meeting called by Unitholders to consider item (c) under "Unitholder Matters — Matters Requiring Unitholder Approval" in which case the quorum shall be Unitholders holding 25% of the outstanding Trust Units. If no quorum is present at such meeting when called, the meeting, if called on the requisition of Unitholders, will be terminated and otherwise will be adjourned for not less than 10 days and at the adjourned meeting the Unitholders then present in person or represented by proxy will form the necessary quorum. At any such meeting, each Unitholder will be entitled to one vote for each Trust Unit registered in the Unitholder's name.

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

### Matters Requiring Unitholder Approval

Prior to the Conversion, any matter to be considered at a meeting of Unitholders, other than certain matters requiring the approval by Extraordinary Resolution as set out below, require the approval of Unitholders by Ordinary Resolution. Pursuant to the Declaration of Trust, the following matters require approval by Extraordinary Resolution:

- (a) a change in the investment objectives of the Fund, unless such change is necessary to ensure compliance with applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time;
- (b) any change in the basis of calculating fees or other expenses that are charged to the Fund that could result in an increase in charges to the Fund other than a fee or expense charged by a person or company that is at arm's length to the Fund and for which Unitholders are sent a written notice of such change at least 60 days before the effective date of such change;
- (c) a change of the manager of the Fund, other than to an affiliate of the Manager;
- (d) the issuance of additional Trust Units other than (a) in connection with the exercise of the Warrants; (b) in connection with any offering of rights, warrants or options to existing Unitholders to acquire Trust Units from treasury; (c) for net proceeds per Trust Unit not less than the NAV per Trust Unit calculated on the date immediately prior to the pricing of the offering, or (d) by way of a distribution paid in additional Trust Units;
- (e) other than in connection with the Conversion, which may require Unitholder approval by Ordinary Resolution, a reorganization with, or transfer of assets to, another entity if the Fund ceases to continue after the reorganization or transfer of assets;
- (f) other than in connection with the Conversion, which may require Unitholder approval by Ordinary Resolution, a reorganization with, or acquisition of assets of, another entity if the Fund continues after the reorganization or acquisition of assets and the transaction would be a material change to the Fund;
- (g) any proposal made by the Manager to amend the terms of, or to not implement, the Conversion, provided that Unitholders are given the right to redeem their Trust Units at the NAV per Trust Unit prior to the implementation of the amended Conversion or in connection with the decision not to implement the Conversion, as the case may be; or

- (h) a termination of the Fund, other than as described under “Termination of the Fund” or in connection with the Conversion.

On and after the Conversion Date, Unitholders will be permitted to vote on all matters that require Unitholder approval under NI 81-102. These matters include, in respect of the Fund:

- (a) any (i) change in the basis of the calculation of a fee or expense charged to the Fund that could result in an increase in charges to the Fund, or (ii) a new fee or expense is introduced that could result in an increase in charges to the Fund (except as disclosed elsewhere in this prospectus);
- (b) a change of the Manager, unless the new manager is an affiliate of the Manager;
- (c) a change in the fundamental investment objectives of the Fund;
- (d) a change of the auditor of the Fund;
- (e) a decrease in the frequency of the calculation of the Net Asset Value per Trust Unit of the Fund; and
- (f) a material reorganization of the Fund.

The Unitholders will also be permitted to vote on any modification, amendment, alteration or deletion of rights, privileges or restrictions attaching to the Trust Units which would have a material adverse effect on the interest of the Unitholders. No amendment may be made to the Declaration of Trust which would have the effect of reducing the expenses reimbursable to the Manager or terminating the Manager unless the Manager, in its sole discretion, consents.

#### **Amendments to the Declaration of Trust**

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

- (a) remove any conflicts or other inconsistencies which may exist between any terms of the Declaration of Trust and any provisions of any law or regulation applicable to or affecting the Fund;
- (b) make any change or correction in the Declaration of Trust which is of a typographical nature or is required to cure or correct any ambiguity or defective or inconsistent provision, clerical omission, mistake or manifest error contained therein;
- (c) bring the Declaration of Trust into conformity with applicable laws, rules and policies of Canadian securities regulators or with current practice within the securities industry, provided that any such amendment does not adversely affect the pecuniary value of the interests of the Unitholders;
- (d) maintain the status of the Fund as a “mutual fund trust” for the purposes of the Tax Act or to respond to amendments to such Act or to the interpretation thereof;
- (e) change the name of the Fund;
- (f) provide added protection or benefit to Unitholders;
- (g) make such modifications as may be necessary or desirable for the purpose of implementing the Conversion;
- (h) divide the capital of the Fund into one or more series of Trust Units and to establish the attributes of each series, provided that the rights of existing Unitholders are not changed in an adverse manner; or

- (i) on and after the Conversion Date, to delete any provisions which have application only prior to the Conversion Date.

Except for changes to the Declaration of Trust that require the approval of Unitholders or changes described above that do not require approval of or prior notice to Unitholders, the Declaration of Trust may be amended from time to time by the Trustee, at the request of the Manager, upon not less than 30 days' prior written notice to Unitholders.

### **Reporting to Unitholders**

The Fund will prepare, file and send to Unitholders unaudited semi-annual and audited annual financial statements of the Fund and other documents in accordance with NI 81-106.

### **Non-Resident Unitholders**

The Fund was not established and shall not be maintained for the benefit of one or more non-resident persons within the meaning of the Tax Act. At no time may non-residents of Canada and partnerships (other than "Canadian partnerships" as defined in the Tax Act) be the beneficial owners of more than 50% of the Trust Units and the Trustee shall inform the Registrar and Transfer Agent of this restriction. The Trustee may require a declaration as to the jurisdiction in which a beneficial owner of Trust Units is resident and, if a partnership, as to its status as a "Canadian partnership". If the Trustee becomes aware, as a result of requiring such declarations as to beneficial ownership or otherwise, that the beneficial owners of 40% or more of the Trust Units then outstanding are, or may be, non-residents and/or partnerships (other than "Canadian partnerships"), or that such a situation is imminent, the Trustee may make a public announcement thereof and the Trustee may send a notice to such non-resident Unitholders and partnerships, chosen in inverse order to the order of acquisition or in such manner as the Trustee may consider equitable and practicable, requiring them to dispose of their Trust Units or a portion thereof to residents of Canada within a specified period of not less than 30 days. If the Unitholders receiving such notice have not disposed of the specified number of Trust Units or provided the Trustee with satisfactory evidence that they are not non-residents or partnerships (other than "Canadian partnerships") within such period, the Trustee may redeem or, on behalf of such Unitholders, dispose of such Trust Units. Upon such redemption or sale, the affected Unitholders shall cease to be beneficial Unitholders of Trust Units and their rights shall be limited to receiving the redemption price or the net proceeds of sale of such Trust Units.

### **TERMINATION OF THE FUND**

The Fund does not have a fixed termination date. However, the Fund may be terminated at any time upon not less than 90 days' written notice by the Trustee provided that the prior approval of Unitholders has been obtained by a majority vote at a meeting of Unitholders called for that purpose (the "Termination Date"); provided, however, that the Trustee may, in its discretion, on 60 days' notice to Unitholders, terminate the Fund without the approval of Unitholders if, in the opinion of the Trustee, the NAV of the Fund is reduced as a result of redemptions or otherwise so that it is no longer economically feasible to continue the Fund. The Fund will also issue a press release ten days prior to the Termination Date setting forth the details of the termination including the fact that, upon termination, the net assets of the Fund will be distributed to Unitholders on a pro rata basis. Immediately prior to the termination of the Fund, including on the Termination Date, the Trustee will, to the extent possible, convert the assets of the Fund to cash and after paying or making adequate provision for all of the Fund's liabilities, distribute the net assets of the Fund to the Unitholders as soon as practicable after the date of termination or any unliquidated assets may be distributed in specie rather than in cash, subject to compliance with any securities or other laws applicable to such distributions.

## USE OF PROCEEDS

The Fund will use the proceeds from the sale of Units as follows (excluding the Units sold pursuant to the exercise of the Over-Allotment Option):

	<b>Minimum Offering</b>	<b>Maximum Offering</b>
Gross proceeds to the Fund . . . . .	\$20,000,004	\$100,000,008
Agents' fees . . . . .	\$ 1,050,000	\$ 5,250,000
Expenses of issue . . . . .	\$ 300,000	\$ 650,000
Net proceeds to the Fund . . . . .	<b>\$18,650,004</b>	<b>\$ 94,100,008</b>

The Fund will use the net proceeds of the Offering (including any net proceeds from the exercise of the Over-Allotment Option) to invest in securities in accordance with the investment objectives and restrictions of the Portfolio as described herein. See “Investments Objectives” and “Investment Restrictions”. Harvest anticipates that the net proceeds of the Offering will be substantially invested within 30 days from the Closing Date. Pending such investment, the cash portion of the net proceeds will be invested in money market instruments.

## PLAN OF DISTRIBUTION

Pursuant to the Agency Agreement between the Agents, Harvest, the Investment Manager and the Fund, the Agents have agreed to offer the Units for sale, as agents of the Fund, on a best efforts basis, if, as and when issued by the Fund. The Agents will receive a fee equal to \$0.63 for each Unit sold and will be reimbursed for reasonable out of pocket expenses incurred by them. The Agents may form a sub-agency group including other qualified investment dealers and determine the fee payable to the members of such group, which fee will be paid by the Agents out of their fees. While the Agents have agreed to use their best efforts to sell the Units offered hereby, the Agents will not be obligated to purchase Units that are not sold.

The Fund has granted the Agents an Over-Allotment Option, exercisable in whole or in part at any time and from time to time during the period of 30 days following the Closing, to purchase an aggregate of up to 15% of the aggregate number of Trust Units and to purchase an aggregate of up to 15% of the aggregate number of Warrants issued at the Closing on the same terms set forth above, which additional Trust Units and Warrants are qualified for sale hereunder. To the extent that the Over-Allotment Option is exercised, the additional Trust Units and Warrants will be purchased at the Offering Price and the Agents will be entitled to a fee of \$0.63 per Unit in respect of each Unit purchased.

The TSX has conditionally approved the listing of the Units, Trust Units and Warrants. The listing is subject to the Fund fulfilling all of the requirements of the TSX on or before July 26, 2010, including distribution of the Trust Units and Warrants to a minimum number of public holders. The Units, Trust Units and Warrants will be listed on the TSX under the symbols HCF.A, HCF.UN and HCF.WT, respectively.

If subscriptions for a minimum of 1,666,667 Units have not been received within 90 days following the date of issuance of a final receipt for the prospectus, the Offering may not continue without the consent of the securities authorities and those who have subscribed for Units on or before such date. Under the terms of the Agency Agreement, the Agents may, at their discretion on the basis of their assessment of the state of the financial markets and upon the occurrence of certain stated events, terminate the Agency Agreement. Cash proceeds from subscriptions will be held by the Agents until Closing. If the minimum Offering is not achieved and the necessary consents are not obtained or if the Closing does not occur for any reason, subscription proceeds received from prospective purchasers will be returned to such purchasers promptly without interest or deduction. Subscriptions for Units will be received subject to

rejection or allotment in whole or in part. The right is reserved to close the subscription books at any time without notice. Closing is expected to take place on or about June 29, 2010, or such later date that is on or before July 27, 2010, as may be agreed upon by the Fund and the Agents.

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

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

Harvest will receive the fees described under “Fees and Expenses” for its services to the Fund and will be reimbursed by the Fund for all expenses incurred in connection with the operation and administration of the Fund.

#### **PROXY VOTING DISCLOSURE FOR PORTFOLIO SECURITIES HELD**

The proxies associated with securities held by the Fund will be voted by the Investment Manager in the best interests of Unitholders. The Investment Manager considers the “best interests” of Unitholders to mean their best long-term economic interests. The Investment Manager maintains policies and procedures that are designed to be guidelines for the voting of proxies; however, each vote is ultimately cast on a case-by-case basis, taking into consideration the relevant facts and circumstances at the time of the vote.

The Investment Manager’s proxy voting policies and procedures set out various considerations that the Investment Manager will address when voting, or refraining from voting, proxies, including that:

- (a) the Investment Manager will generally vote with management on routine matters related to the operation of an issuer that are not expected to have a significant economic impact on the issuer and/or its shareholders;
- (b) the Investment Manager will review and analyze on a case-by-case basis, non-routine proposals that are more likely to affect the structure and operation of the issuer and to have a greater impact on the value of the investment;
- (c) the Investment Manager may abstain from voting a proxy if it concludes that (i) the effect on Unitholders’ economic interests or the value of the portfolio holding is indeterminable or insignificant or (ii) the cost of voting is disproportionate to the economic impact the vote would have on the portfolio holdings; and
- (d) any material conflicts that may arise will be resolved in the best interests of the Unitholders and potential procedures to deal with any conflict are identified.

A proxy voting committee of the Investment Manager administers and oversees the proxy voting process. The proxy committee reviews both the proxy voting policies and procedures for their continued effectiveness and appropriateness and the voting practices of the Investment Manager from time to time. In addition, the Manager has reviewed these policies and procedures and will monitor proxy voting by the Investment Manager on behalf of the Fund to ensure that such policies and procedures are followed and that the voting of proxies is carried out in the best interests of Unitholders.

The current proxy voting policies and procedures of the Investment Manager are available to Unitholders on request, at no cost, by calling toll-free 1-888-482-2007. The Investment Manager will publish the Fund's proxy voting records on an annual basis, commencing in 2010, on its website at [www.avenueinvestment.com](http://www.avenueinvestment.com).

### **MATERIAL CONTRACTS**

The following contracts can reasonably be regarded as material to purchasers of Units:

- (a) the Declaration of Trust described under "Organization and Management Details of the Fund";
- (b) the Warrant Indenture referred to under "Attributes of the Units, Trust Units and Warrants";
- (c) the Management Agreement described under "Organization and Management Details of the Fund";
- (d) the Investment Management Agreement as described under "Organization and Management Details of the Fund";
- (e) the Agency Agreement described under "Plan of Distribution"; and
- (f) the Custodian Agreement described under "Organization and Management Details of the Fund".

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

### **EXPERTS**

Borden Ladner Gervais LLP and Blake, Cassels & Graydon LLP have prepared the opinion as to certain tax matters as described under "Income Tax Considerations".

The Fund's auditors are PricewaterhouseCoopers LLP, Chartered Accountants, who have prepared an independent auditors' report dated May 31, 2010 in respect of the Fund's statement of financial position as at May 31, 2010. PricewaterhouseCoopers LLP has advised that they are independent with respect to the Fund within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

None of these professional firms has any registered or beneficial interest, direct or indirect, in the securities of the Fund or of an associate or affiliate of the Fund.

### **PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

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

### **AUDITORS' CONSENT**

We have read the prospectus of Harvest Canadian Income & Growth Fund (the "Fund") dated May 31, 2010 relating to the issue and sale of units of the Fund. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above mentioned prospectus of our report to the Trustee of the Fund on the statement of financial position of the Fund as at May 31, 2010. Our report is dated May 31, 2010.

Toronto, Canada  
May 31, 2010

(Signed) PRICEWATERHOUSECOOPERS LLP  
Chartered Accountants  
Licensed Public Accountants

## AUDITORS' REPORT

To the Trustee of Harvest Canadian Income & Growth Fund

We have audited the statement of financial position of Harvest Canadian Income & Growth Fund (the "Fund") as at May 31, 2010. This financial statement is the responsibility of the Fund's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

In our opinion, this financial statement presents fairly, in all material respects, the financial position of the Fund as at May 31, 2010 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada  
May 31, 2010

(Signed) PRICEWATERHOUSECOOPERS LLP  
Chartered Accountants  
Licensed Public Accountants

**HARVEST CANADIAN INCOME & GROWTH FUND**  
**STATEMENT OF FINANCIAL POSITION**  
**As at May 31, 2010**

**ASSETS**

Cash . . . . . \$12

**UNITHOLDER'S EQUITY**

Unitholder's Equity (Notes 1 and 2): 1 Unit . . . . . \$12

**Approved by the Board of Directors of Harvest Portfolios Group Inc.:**

(Signed) MICHAEL KOVACS  
Director

(Signed) TOWNSEND HAINES  
Director

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

## HARVEST CANADIAN INCOME & GROWTH FUND

### NOTES TO STATEMENT OF FINANCIAL POSITION

#### 1. NATURE OF OPERATIONS

Harvest Canadian Income & Growth Fund (the “**Fund**”) is a closed-end fund governed by the laws of the Province of Ontario pursuant to a declaration of trust (the “**Declaration of Trust**”) dated May 31, 2010, by Harvest Portfolios Group Inc. (“**Harvest**” or the “**Manager**”), as manager and trustee of the Fund. Pursuant to the Declaration of Trust, Harvest in its capacity as trustee of the Fund, is holding in trust the sum of \$12.00 which Harvest has contributed and which constitutes the initial trust property of the Fund. The Fund is authorized to issue an unlimited number of Units (the “**Units**”).

This prospectus qualifies the issuance of units (the “**Units**”) of the Fund (the “**Offering**”) at a price of \$12.00 per Unit. Each Unit consists of one trust unit (“**Trust Unit**”) and one warrant (“**Warrant**”). The Units will separate into Trust Units and Warrants upon the earlier of the closing of the Over-Allotment Option (as defined herein) and the 30th day following the closing of the Offering. Each Warrant entitles the holder to purchase one Trust Unit at the subscription price of \$12.00 per Trust Unit by notifying the Equity Transfer & Trust Company during the period between the first Business Day of any month commencing in June 2011 up to and including November 2011 and 5:00 p.m. (Toronto time) on the tenth Business Day of such month or before 5:00 p.m. (Toronto time) on November 30, 2011 (the “**Warrant Expiry Date**”). Such Warrants will be exercised effective at 5:00 p.m. (Toronto time) on the tenth Business Day of the applicable month or on November 30, 2011 (as applicable). Warrants not exercised by the Warrant Expiry Date will be void and of no value.

Prior to the Conversion, Unitholders may redeem their Trust Units monthly as described in the Declaration of Trust. After the Conversion, Unitholders may redeem their Trust Units at the net asset value (the “**NAV**”) on a daily basis.

The NAV per Unit will be calculated as of 4:15 p.m. (Toronto time) on each Thursday during the year (or, if a Thursday is not a Business Day, the Business Day following such Thursday) and on the last Business Day of each month (the “**Valuation Time**”). The NAV on a particular date will be equal to the aggregate value of the assets of the Fund less the aggregate value of the liabilities of the Fund, including any income, net realized capital gains or other amounts payable to Unitholders on or before such date expressed in Canadian dollars at the applicable exchange rate on such date.

The Fund’s investment objectives are:

- (i) to provide holders of Units (“**Unitholders**”) with monthly distributions (initially targeted to be \$0.07 per Trust Unit (\$0.84 per annum) representing an annual cash distribution of 7.0% based on the \$12.00 per Unit issue price); and
- (ii) to maximize long-term total return for Unitholders while reducing volatility.

The Fund will become an open-end mutual fund on June 20, 2012. On and after the Conversion, the Trust Units will be redeemable at NAV per Trust Unit on a daily basis, at such time the Trust Units will be delisted and the Fund will become subject to NI 81-102.

#### 2. MANAGEMENT FEES AND OTHER EXPENSES

Pursuant to the Management Agreement, Harvest is the manager of the Fund and, as such, is responsible for providing or arranging for required general and administrative services to the Fund.

Pursuant to the terms of the Declaration of Trust, Harvest is entitled to a fee at an annual rate of 1.25% of NAV, plus an amount equal to the Servicing Fee (as defined below) plus applicable taxes. Fees payable to Harvest will be calculated and payable monthly based on the average NAV of the Fund calculated at 4:15 p.m. (Toronto time) on each Thursday during the year (or, if a Thursday is not a business day, the business day following such Thursday) and on the last business day of each month. The management fee will be paid in cash.

Prior to the Conversion Date, the Manager will pay to registered dealers a servicing fee (the “**Servicing Fee**”) equal to 0.40% annually of the NAV per Trust Unit for each Trust Unit held by clients of the registered dealers (calculated and paid at the end of each calendar quarter commencing on Closing, plus applicable taxes). On and after the Conversion Date, the Manager will pay the Servicing Fee equal to 1.00% annually of the NAV per Trust Unit for each Trust Unit held by clients of the registered dealers (calculated and paid at the end of each calendar quarter commencing on the Conversion Date, plus applicable taxes).

State Street Trust Company Canada (the “**Custodian**”) acts as custodian of the assets of the Fund and is also responsible for certain aspects of the Fund’s day to day operations. In consideration for the services provided by the Custodian, the Fund will pay a monthly fee to be agreed upon between the Custodian and Harvest.

In consideration for the services provided by the trustee of the Fund (except when the Manager is the trustee of the Fund), the Fund will pay a monthly fee to be agreed upon between the trustee of the Fund and Harvest.

**HARVEST CANADIAN INCOME & GROWTH FUND**  
**NOTES TO STATEMENT OF FINANCIAL POSITION (Continued)**

**2. MANAGEMENT FEES AND OTHER EXPENSES (Continued)**

Pursuant to the Declaration of Trust, the Fund will pay for all ordinary expenses incurred in connection with its operation and administration. It is expected that these expenses will include, without limitation: mailing and printing expenses for periodic reports to Unitholders and other Unitholder communications including marketing and advertising expenses; fees payable to the registrar and transfer agent; any reasonable out-of-pocket expenses incurred by the Manager or its agents in connection with their on-going obligations to the Fund; fees payable to the auditors and legal advisors of the Fund; fees and expenses of the Independent Review Committee; regulatory filing, stock exchange and licensing fees; and any expenditures incurred upon the termination of the Fund. The aggregate amount of these fees and expenses is estimated to be \$230,000 per annum.

The expenses of the Offering (including the costs of creating the Fund, the costs of printing and preparing this prospectus, legal expenses of the Fund, marketing expenses and legal and other out of pocket expenses incurred by the Agents and certain other expenses) will, together with the Agents' fees, be paid from the gross proceeds of the Offering. The Offering expenses are estimated to be \$650,000. The Manager has agreed to pay all expenses incurred in connection with the Offering, other than the Agents' fees, that exceed 1.5% of the gross proceeds of the Offering. The expenses of the Offering, together with the Agents' fees, payable by the Fund, will be reflected as a reduction of Unitholders' Equity.

As soon as practicable upon the exercise of a Warrant, the Fund will pay a fee equal to \$0.12 per Warrant to the Agents and a fee equal to \$0.18 per Warrant to the broker whose client is exercising the Warrant.

Prior to Conversion, the Fund is authorized to borrow for the purpose of making investments in accordance with its investment objectives and restrictions, and to pledge its assets to secure the borrowings. After Closing, the Fund intends to enter into a loan facility with one or more Canadian chartered banks ("**Loan Facility**"). The Loan Facility will permit the Fund to borrow an amount not exceeding 20% of the value of the total assets of the Fund at the time of draw down. The interest rate, fees and expenses under the Loan Facility are expected to be typical of similar credit facilities. Once the net proceeds from the Offering have been fully invested, the Fund expect to utilize the entire Loan Facility.

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

Dated: May 31, 2010

This prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each province and territory of Canada.

**Harvest Portfolios Group Inc.**  
(as Manager, Promoter and on behalf of the Fund)

(Signed) MICHAEL KOVACS  
Chief Executive Officer and President

(Signed) TOWNSEND HAINES  
Chief Financial Officer

On behalf of the Board of Directors of Harvest Portfolios Group Inc.  
(as Manager, Promoter and on behalf of the Fund)

(Signed) MICHAEL KOVACS  
Director

(Signed) TOWNSEND HAINES  
Director

(Signed) NICK BONTIS  
Director

## CERTIFICATE OF THE AGENTS

Dated: May 31, 2010

To the best of our knowledge, information and belief, this prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each province and territory of Canada.

BMO NESBITT BURNS INC.      CIBC WORLD MARKETS INC.      RBC DOMINION SECURITIES INC.

(Signed) ROBIN G. TESSIER      (Signed) MICHAEL D. SHUH      (Signed) EDWARD V. JACKSON

SCOTIA CAPITAL INC.

(Signed) BRIAN D. MCCHESENEY

NATIONAL BANK FINANCIAL INC.

(Signed) TIMOTHY EVANS

HSBC SECURITIES (CANADA) INC.

(Signed) BRENT LARKAN

DUNDEE SECURITIES CORPORATION

RAYMOND JAMES LTD.

(Signed) HAROLD M. WOLKIN

(Signed) J. GRAHAM FELL

CANACCORD GENUITY CORP.

MACQUARIE CAPITAL MARKETS  
(CANADA) LTD.

WELLINGTON WEST CAPITAL  
MARKETS INC.

(Signed) CRAIG WARREN

(Signed) MIKE MACKASEY

(Signed) SCOTT LARIN

DESJARDINS SECURITIES INC.

INDUSTRIAL ALLIANCE SECURITIES INC.

(Signed) BETH SHAW

(Signed) PAUL BERNARD

*H*ARVEST  
PORTFOLIOS GROUP

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