



CONVERTIBLE & YIELD ADVANTAGE TRUST

\$ 150,000,000 (MAXIMUM)

6,000,000 UNITS

Convertible & Yield Advantage Trust (the “Trust”), an investment trust established under the laws of the Province of Ontario, proposes to issue redeemable, transferable units (the “Units”) of the Trust (the “Offering”).

The Trust’s investment objectives are to:

- (i) provide holders of Units (“Holders”) with a stable stream of monthly distributions of \$0.1458 per Unit (\$1.75 per annum to yield 7.0% on the subscription price of \$25.00 per Unit); and
- (ii) endeavour to preserve and enhance the net asset value of the Trust (the “NAV”) in order to return at least the original subscription price of the Units (\$25.00 per Unit) to Holders on or about October 31, 2013 (the “Termination Date”).

In order to achieve the Trust’s investment objectives, the net proceeds of the Offering will be invested in a portfolio consisting primarily of convertible fixed income securities, high yield securities and income trust securities (the “Portfolio”). MFC Global Investment Management (Canada), a division of Elliott & Page Limited, a Manulife company (the “Investment Advisor”) will be retained by the Manager (as defined below) as investment sub-advisor to provide investment advisory and portfolio management services with respect to the Portfolio. The Investment Advisor will actively manage the Portfolio, including the allocation of assets amongst the three classes of securities. It is expected that approximately 40% of the Portfolio will consist of convertible securities, 30% of the Portfolio will consist of high yield securities and 30% of the Portfolio will consist of income trust securities. Based on this allocation, it is anticipated that a significant portion of the distributions will consist of capital gains. The Investment Advisor will actively manage the allocation of the assets in the Portfolio amongst these three asset classes. See “Investment Guidelines”.

The Toronto Stock Exchange has conditionally approved the listing of the Units, subject to fulfillment by the Trust of the requirements of such exchange on or before January 13, 2004, including distribution to a minimum number of Holders.

Price: \$25.00 per Unit
Minimum Purchase: 100 Units

	<u>Price to Public⁽¹⁾</u>	<u>Agents’ Fee</u>	<u>Net Proceeds to the Trust⁽²⁾</u>
Per Unit	\$25.00	\$1.3125	\$23.6875
Maximum Offering ⁽³⁾⁽⁴⁾	\$150,000,000	\$7,875,000	\$142,125,000
Minimum Offering ⁽³⁾	\$25,000,000	\$1,312,500	\$23,678,500

- (1) The offering price was established by negotiation between the Manager and the Agents.
- (2) Before deducting the expenses of issue which are estimated to be \$700,000, which together with the Agents’ fee will be paid out of the proceeds of the Offering.
- (3) There will be no closing unless at least 1,000,000 Units are sold. The maximum offering assumes that 6,000,000 Units are sold. If subscriptions for a minimum of 1,000,000 Units have not been received within 90 days following the date of issuance of a receipt for this prospectus, the



Offering may not continue without the consent of the Canadian securities regulators and those who have subscribed for Units on or before such date.

- (4) The Trust has granted the Agents an option (the "Over-Allotment Option") exercisable for a period of 30 days from the closing of the Offering, to offer up to 900,000 additional Units on the same terms as set forth above, which additional Units are qualified for sale hereunder. If the Over-Allotment Option is exercised in full, the proceeds raised under the maximum offering will be \$172,500,000, the Agents' fee will be \$9,056,250 and the net proceeds to the Trust will be \$163,443,750. See "Plan of Distribution".

See "Risk Factors" for a discussion of certain factors that should be considered by prospective investors in Units. There can be no assurance that the Trust will be able to achieve its monthly distribution objective or its objective to preserve and enhance the NAV in order to return at least the original subscription price of the Units to Holders on or about the Termination Date. In the event that net income and net realized capital gains are insufficient to fund the monthly distributions, a portion of the distribution may constitute a return of capital.

The Investment Advisor, a wholly-owned subsidiary of Manulife Financial Corporation, provides investment advisory and portfolio management services to institutional clients and investment funds. As of June 30, 2003, the Investment Advisor had approximately \$69.7 billion in assets under management.

Skylon Advisors Inc. (the "Manager") is the trustee of the Trust and will perform the management functions for the Trust. The Manager will provide all administrative services required by the Trust and will retain the Investment Advisor to implement the investment strategy of the Trust.

Units may be surrendered for redemption not more than 45 days, and at least ten Business Days (any day on which the Toronto Stock Exchange is open for trading hereinafter referred to as a "Business Day"), prior to the second last Business Day of December in any year for a redemption price per Unit equal to the net asset value per Unit of the Trust (the "NAV per Unit"). The NAV per Unit will vary depending on a number of factors, including distributions paid on the Units, the value of the securities in the Portfolio, the performance of the convertible securities, high yield securities, income trust securities and equity markets generally, interest rates and foreign currency exposure. There is currently no market through which Units may be sold and purchasers may not be able to resell securities purchased under this prospectus. The Agents may over-allot or effect transactions as described under "Plan of Distribution".

In the opinion of McMillan Binch LLP, counsel to the Trust, and Osler, Hoskin & Harcourt LLP, counsel to the Agents, provided that the Trust qualifies as a "mutual fund trust" for the purposes of the *Income Tax Act* (Canada) (the "Tax Act"), Units offered hereby will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans. It is anticipated that Units will be "foreign property" for purposes of the tax imposed under Part XI of the Tax Act. See "Canadian Federal Income Tax Considerations" and "Eligibility for Investment".

The Trust is not a trust company and, accordingly, is not registered under the trust company legislation of any jurisdiction. The Trust is not a "mutual fund" as defined in the securities legislation applicable in certain provinces and does not operate in accordance with the requirements of Canadian securities regulation applicable to mutual funds. 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.

TD Securities Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., National Bank Financial Inc., Scotia Capital Inc., Canaccord Capital Corporation ("Canaccord"), HSBC Securities (Canada) Inc., Raymond James Ltd., Dundee Securities Corporation, Desjardins Securities Inc., Bieber Securities Inc., First Associates Investments Inc. and Wellington West Capital Inc. (the "Agents"), as agents, conditionally offer Units for sale on a best efforts basis, subject to prior sale, if, as and when issued by the Trust and accepted by the Agents in accordance with the conditions contained in the Agency Agreement referred to under "Plan of Distribution" and subject to approval of certain legal matters on behalf of the Trust and the Manager by McMillan Binch LLP and on behalf of the Agents by Osler, Hoskin & Harcourt LLP.

The Investment Advisor is an affiliate of The Manufacturers Life Insurance Company, which owns Class C common shares and certain convertible debentures of Canaccord Holdings Ltd., which represents more than 20% of the outstanding voting and equity securities of Canaccord Holdings Ltd. on a fully diluted basis. Canaccord, one of the agents, is a wholly-owned subsidiary of Canaccord Holdings Ltd. **As such, Canaccord may be considered to be a "connected issuer" of the Trust under Canadian securities legislation by virtue of the investment sub-advisory relationship between the Trust's Manager and the Investment Advisor.** See "Plan of Distribution".

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 October 17, 2003, but no later than December 16, 2003. Registrations and transfers of Units will be effected only through the book-entry only system administered by The Canadian Depository for Securities Limited ("CDS"). A

purchaser of Units will receive only a customer confirmation from the registered dealer which is a CDS participant and from or through whom Units are purchased. See “Plan of Distribution” and “Declaration of Trust and Description of Units – Book-Entry Only System”.

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PROSPECTUS SUMMARY

The following is a summary of the principal features of the Offering and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. Unless otherwise indicated, all references to dollar amounts in this prospectus are to Canadian dollars.

- Issuer:** Convertible & Yield Advantage Trust (the “Trust”), an investment trust established under the laws of the Province of Ontario, which invests its assets in accordance with the investment objectives and strategy described under “Investment Guidelines”.
- Offering:** The offering consists of redeemable, transferable units (the “Units”) of the Trust (the “Offering”).
- Maximum Issue:** \$150,000,000 (6,000,000 Units).
- Minimum Issue:** \$25,000,000 (1,000,000 Units).
- Price:** \$25.00 per Unit.
- Minimum Subscription:** \$2,500.00 (100 Units).
- Investment Objectives:** The Trust’s investment objectives are to:
- (i) provide holders of Units (“Holders”) with a stable stream of monthly distributions of \$0.1458 per Unit (\$1.75 per annum to yield 7.0% on the subscription price of \$25.00 per Unit); and
 - (ii) endeavour to preserve and enhance the net asset value of the Trust (the “NAV”) in order to return at least the original subscription price of the Units (\$25.00 per Unit) to Holders on or about October 31, 2013 (the “Termination Date”).
- Investment Strategy:** In order to achieve the Trust’s investment objectives, the net proceeds of the Offering will be invested in a portfolio consisting primarily of convertible fixed income securities, high yield securities and income trust securities (the “Portfolio”). It is expected that approximately 40% of the Portfolio will consist of convertible securities, 30% of the Portfolio will consist of high yield securities and 30% of the Portfolio will consist of income trust securities. Based on this allocation, it is anticipated that a significant portion of the distributions will consist of capital gains. The Investment Advisor (as defined below) will actively manage the allocation of the assets in the Portfolio amongst these three asset classes. Convertible securities to be included in the Portfolio will consist primarily of debt securities convertible into equity securities of U.S. or Canadian public companies. High yield securities to be included in the Portfolio will consist primarily of debt securities, primarily of U.S. issuers and to a lesser extent Canadian and European issuers. Income trust securities to be included in the Portfolio will consist primarily of Canadian publicly traded real estate investment trusts, oil and gas trusts, power and pipeline trusts and business trusts.
- The Portfolio will be diversified by issuer and sector. Canadian or U.S. government debt and/or cash equivalents may be held from time to time as market conditions dictate. Securities in the Portfolio will be selected based on their expected return relative to risk characteristics, taking into consideration factors such as credit quality and liquidity.
- MFC Global Investment Management (Canada), a division of Elliott & Page Limited, a Manulife company (the “Investment Advisor”) will be retained by the Manager (as defined below) as investment sub-advisor to the Trust to provide investment advisory and portfolio management services with respect to the Portfolio. The Investment Advisor will actively manage the Portfolio.

See “Investment Guidelines”.

The Convertible Securities Market:

As of June 30, 2003, the North American convertible securities market was estimated to be in excess of U.S.\$300 billion, including an estimated U.S.\$20 billion issued by Canadian corporations. The convertible securities market has grown considerably over the six-month period ended June 30, 2003. According to Morgan Stanley, the issuance of new convertible securities has increased 30% over the comparable period in 2002, with a total of U.S.\$55.3 billion issued. According to Morgan Stanley, total new convertible securities issuances, including refinancings, has increased more than six-fold year over year.

Convertible securities give the holder of the security a right to convert to a specified number of underlying securities of the same issuer. A typical convertible security is a bond that can be exchanged at the option of the holder for a specific number of the issuer’s common shares. Similar to regular bonds, convertible bonds pay a fixed rate of interest and require repayment of principal, but also provide the holder with equity participation through the conversion feature. The convertible securities market offers an attractive range of security types with distinctive risk and return profiles. The spectrum of securities within the market ranges from those with more fixed income characteristics, such as cash coupon convertible securities and zero coupon bonds, to those with more equity security characteristics, such as convertible preferred stock.

Convertible securities are designed to provide various payout structures that can be advantageous to different types of investors and/or under different market conditions. Advantages of convertible securities, which depend in part on the type of security issued, may include enhanced yield over the underlying security, downside protection through distribution or liquidation seniority over equity security holders, and an increased payment that is related to the underlying stock price. The specific convertible security chosen for investment can have a large impact on the return achieved as maturity, call, put and conversion features can all vary, affecting the degree of stock price participation. Convertible securities are more consistently liquid than high yield securities as a result of the liquidity of the underlying securities, which are usually exchange-traded.

See “The Convertible Securities Market”.

The High Yield Securities Market:

As of June 30, 2003, U.S. corporate high yield debt outstanding was estimated to be approximately U.S.\$850 billion. The principal amount of new high yield debt issues has exceeded U.S.\$50 billion since 1996, and, according to Merrill Lynch, as of June 30, 2003 has exceeded U.S.\$60 billion.

High yield debt securities are a distinct asset class with potentially attractive risk/return characteristics. High yield securities are generally considered to be securities that are rated at or below BB+ (a rating category of Standard & Poor’s, a division of the McGraw-Hill Companies, Inc. (“Standard & Poor’s”)), or at or below Ba1 (a rating category of Moody’s Investors Service, Inc.). High yield securities also include securities that are not formally rated by an “approved rating organization” as defined in National Instrument 81-102 of the Canadian Securities Administrators (“NI 81-102”) but that bear yields equivalent to comparable rated securities.

The prices at which high yield securities trade vary over time based on such factors as term to maturity, interest and currency rate fluctuations, the liquidity of the security, underlying changes in the risks associated with the issuer of the securities (such as the credit quality of the issuer, business changes affecting a corporate issuer or political or economic risks affecting a government issuer), investor demand, and general economic trends.

High yield debt securities are generally more sensitive to economic events than other fixed income investments. The strength or weakness of the high yield debt market typically mirrors the relative strength or weakness in the economy as a whole, reflecting either market confidence or uncertainty, as the case may be. The high yield debt market

also differs significantly in many ways from equity markets. As there are no formal exchanges on which many high yield debt securities trade, there may be less liquidity for investors, resulting in less certain trading values at any given time. In addition, high yield debt securities in the United States have a relatively low historical correlation of return to alternative fixed income investments or equity investments, which provides diversification benefits for investors.

See “The High Yield Securities Market”.

The Income Trust Securities Market:

The income trust market has grown substantially since December 2000. From December 2000 to June 30, 2003, 61 initial public offerings of income trusts were completed, raising a total of approximately \$26.5 billion. Based on offerings of income trusts since 2000, the number of issuers in the income trust market has increased by approximately 96%. The Investment Advisor expects the growth in the income trust market to continue in the short term.

Income funds are trusts, limited partnerships or other entities which are generally structured to own debt and/or equity of an underlying company or other entity which carries on an active business, owns real estate assets, or a royalty in revenues generated by the assets of an underlying company or other entity which carries on an active business. The variety of businesses upon which income funds have been created has become very broad, both in the nature of the underlying industry and assets and in geographic location. The income trusts in the Portfolio are expected to consist primarily of Canadian publicly traded real estate investment trusts, oil and gas trusts, power and pipeline trusts and business trusts. As income trust securities are exchange-traded, holders of such securities benefit from increased liquidity.

Income trusts are structured to minimize the double taxation that normally occurs with operating companies. By having a trust or partnership own equity and debt securities of an operating business, income tax can be minimized at the operating company level.

Certain income trusts are constituted as royalty trusts. Royalty trusts are also structured to minimize the double taxation that normally occurs with corporations. Royalty trusts own a royalty income stream from an operating subsidiary company which provides the principal source of distributable income for the trust. Royalty trusts are largely in the oil and gas sector although it is possible to have royalty trusts in other industries as well. In some cases, the purchase of the royalty provides the royalty trust with certain tax incentives which reduce taxable income at the royalty trust level, but which do not affect the amount of cash that can be distributed to the unitholders by the royalty trust.

See “The Income Trust Securities Market”.

The Investment Advisor:

The Portfolio will be actively managed by the Investment Advisor pursuant to an investment advisory agreement (the “Investment Advisory Agreement”) between Skylon Advisors Inc. (the “Manager”) and the Investment Advisor. The Investment Advisor, a wholly-owned subsidiary of Manulife Financial Corporation, provides investment advisory and portfolio management services to institutional clients and investment funds. As of June 30, 2003, the Investment Advisor had approximately \$69.7 billion in assets under management. The portfolio managers of the Investment Advisor who will be primarily responsible for the Portfolio are Terry Carr, who will be responsible for managing convertible securities and high yield securities, as well as the allocation of securities between the three asset classes in the Portfolio, and Alan Wicks, who will be responsible for managing income trust securities. See “Investment Management”.

The Investment Advisor’s Approach:

The Investment Advisor’s philosophy encompasses a fundamentally driven research process that focuses on current income and capital appreciation, with the aim of maximizing relative value and minimizing loss of capital. Portfolio construction will be fundamentally driven from bottom-up research overlaid with a quantitative risk assessment strategy. The Investment Advisor will not invest in any securities for the Portfolio without thorough review and analysis which includes an assessment of the

context within the overall objectives and risk exposure of the Portfolio. When evaluating individual securities, the Investment Advisor's team first thoroughly studies the issuer to understand the nature of its business. Regular meetings and intraday communication will contribute to asset mix and sector selection decisions.

The Investment Advisor currently has a nine-person team employing a generalist/specialist system to convertible, high yield and income trust securities management. The Investment Advisor's team is composed of four generalists, overseen by a senior portfolio manager, who each combine the responsibilities of portfolio manager and analyst in one role, and who are accountable for particular sectors. These individuals are bottom-up managers who employ an active style and who maintain constant communication with their wide network of information contacts. The Investment Advisor's team of specialists includes two quantitative-oriented analysts, who provide economic forecasting, perform complex modeling and correlation analysis and support the portfolio managers.

The Investment Advisor's team has included convertible securities within a number of high yield portfolio mandates, in order to take advantage of unique investment and capital gains opportunities that are otherwise not available through investing in corporate debt. In selecting convertible securities for the Portfolio, the Investment Advisor will focus on obtaining current income and principal protection. The Investment Advisor expects that the convertible security asset class within the Portfolio will be comprised mainly of high quality, convertible fixed income securities and, to a lesser extent, hybrid and equity sensitive convertible securities. The Investment Advisor will also select convertible securities with a view to appropriate diversification by industry, credit quality, maturity and sensitivity to mitigate risk and compliance with the investment guidelines of the Trust.

The Investment Advisor will purchase securities for the high yield securities component of the Portfolio with a bias towards more stable debt, primarily of issues rated BB and B by Standard & Poor's.

In selecting income trust investments for the Portfolio, the Investment Advisor will adhere to its guiding investment approach, which emphasizes high quality securities, liquidity and capital preservation. The Investment Advisor will not invest in any issuer without first gaining an understanding of the business model, generally through meeting with senior management of the issuer, and carrying out its own fundamental financial analysis.

See "Investment Management – The Investment Advisor's Portfolio Management Strategy".

Loan Facility and Other Forms of Leverage:

The Trust may borrow pursuant to a loan facility (the "Loan Facility") from a Canadian chartered bank or other lending institution in order to add leverage to the Portfolio and may also add leverage to the Portfolio by utilizing additional strategies, including but not limited to the use of reverse repurchase agreements, credit derivatives, and other derivative instruments. The Trust intends to use any Loan Facility and these other forms of leverage, when market conditions are appropriate, to attempt to increase the potential returns of the Trust by taking advantage of the spread between the potential return on additional investments in the Portfolio and the cost of borrowing the purchase price for such investments. **Any Loan Facility, together with other forms of leverage, may only be used in an aggregate amount not to exceed 25% of the greater of: (i) the initial net asset value and (ii) the net asset value at the time the borrowing or other transaction is entered into, of the Units outstanding at such time.** See "Investment Guidelines – Loan Facility and Other Forms of Leverage".

The Manager:

The Manager is the trustee of the Trust and will perform the management functions for the Trust. The Manager will provide all administrative services required by the Trust and will retain the Investment Advisor to implement the investment strategy of the Trust. See "Management of the Trust – The Manager". The Manager is a wholly-owned

subsidiary of Skylon Capital Corp. (“Skylon Capital”), an investment management holding company. Skylon Capital, through its wholly-owned subsidiaries, has over \$600 million in assets under management and is the manager of Skylon International Advantage Yield Trust, Skylon Global Capital Yield Trust and Skylon Global Capital Yield Trust II, which provide investors with exposure to returns on portfolios of global debt securities advised by Pacific Investment Management Company LLC; Saxon Diversified Value Trust, which provides investors with exposure to the return on a portfolio of securities of Canadian publicly traded ongoing business income trusts and resource and real estate income trusts advised by Howson Tattersall Investment Counsel Ltd.; Skylon Capital Yield Trust, which provides investors with exposure to the return on a portfolio of high yield debt securities advised by Marret Asset Management Inc.; is the administrator of Tremont Capital Opportunity Trust, which provides investors with exposure to the return on a portfolio of hedge funds advised by Tremont Capital Management, Corp.; and manages the VentureLink group of labour-sponsored investment funds. As announced on August 21, 2003, an agreement has been made for the sale of all of the shares of Skylon Capital to CI Fund Management Inc. Closing of the transaction, which is subject to regulatory approval and other conditions, is expected to occur in October 2003. Gordon A. McMillan, the Chief Executive Officer of Skylon Capital, will stay on in an advisory capacity to CI Fund Management Inc. with respect to labour-sponsored and structured funds. CI Fund Management Inc. has approximately \$35.1 billion in fee-earning assets as at July 31, 2003. There is no assurance that all conditions of closing will be satisfied and that the transaction will be completed. See “Management of the Trust”.

Trustee: The Manager is the trustee of the Trust. See “The Trustee”.

Custodian: State Street Trust Company Canada is the custodian of the Trust. See “Auditors, Valuation Agent, Transfer Agent, Registrar and Custodian”.

Distributions: The Trust will endeavour to provide Holders with a stable stream of monthly distributions of \$0.1458 per Unit (\$1.75 per annum to yield 7.0% on the subscription price of \$25.00 per Unit) to Holders of record on or about the last Business Day (any day on which the Toronto Stock Exchange is open for trading hereinafter referred to as a “Business Day”) of each month (each, a “Record Date”).

The Trust expects that the initial distribution will be payable to Holders of record on November 28, 2003. The Trust intends to pay distributions to Holders within 15 days after the Record Date (the “Payment Date”).

There can be no assurance that the Trust will be able to achieve its monthly distribution objective or make payments on any Payment Date. In the event that net income and net realized capital gains are insufficient to fund the monthly distributions, a portion of the distribution may constitute a return of capital.

If, in any year after such distributions, there would otherwise remain in the Trust additional net income or net realized capital gains, the Trust intends to make, on or before December 31 of that year, a special distribution of such portion of the remaining net income and net realized capital gains as is necessary to ensure that the Trust will not be liable for income tax thereon under the *Income Tax Act* (Canada) (the “Tax Act”).

See “Distributions” and “Declaration of Trust and Description of Units – Units”.

Market Purchases: To enhance liquidity and to provide market support for the Units, the Trust will have a mandatory market purchase program under which the Trust will, subject to certain exceptions contained in the Declaration of Trust (as described under “Declaration of Trust and Description of Units – Units”) and in compliance with any applicable regulatory requirements, be obligated to purchase for cancellation any Units offered in the market at the then prevailing market price if, at any time following the closing of the Offering, the price at which Units are then offered for sale is less than 90% of the net

asset value per Unit (the “NAV per Unit”) determined as at the close of business in Toronto, Ontario on the immediately preceding Business Day. The maximum number of Units to be purchased in any three month period (commencing with the three month period that begins on the first day of the month following the closing date of the Offering) will be 1.25% of the number of Units outstanding at the beginning of such period.

In addition, the Trust has the right (but not the obligation), exercisable in its sole discretion, at any time, to purchase for cancellation Units in the market at prices not exceeding the NAV per Unit, subject to any applicable regulatory requirements and limitations.

See “Declaration of Trust and Description of Units – Units”.

Use of Proceeds:

The Trust intends to use the total proceeds from the sale of Units as follows:

	<u>Maximum Offering</u>	<u>Minimum Offering</u>
Gross proceeds to the Trust	\$150,000,000	\$25,000,000
Agents’ fee	\$7,875,000	\$1,312,500
Expenses of issue	\$700,000	\$700,000
Net proceeds to the Trust	<u>\$141,425,000</u>	<u>\$22,987,500</u>

The Trust will use the net proceeds of the Offering (including any net proceeds from the exercise of the Over-Allotment Option (as defined under “Plan of Distribution”)) to invest in the Portfolio and fund the ongoing fees and expenses of the Trust as described herein.

Termination:

On or about October 31, 2013, the Trust will be terminated and the Holders will receive their *pro rata* share of the net assets of the Trust. See “Termination of the Trust”.

Redemptions:

Units may be surrendered for redemption not more than 45 days, and at least ten Business Days, prior to the second last Business Day of December in any year (a “Valuation Date”) for a redemption price per Unit equal to the NAV per Unit determined as at such Valuation Date. Units surrendered for redemption by a Holder at least ten Business Days prior to a Valuation Date will be redeemed as at such Valuation Date and the Holder will receive payment in respect of any Units surrendered for redemption on or before the tenth Business Day following such Valuation Date. The NAV per Unit will vary depending on a number of factors, including distributions paid on the Units, the value of the securities in the Portfolio, the performance of the convertible securities, high yield securities, income trust securities and equity markets generally, interest rates and foreign currency exposure. See “Redemption of Units” and “Risk Factors”.

Book-Entry Only System:

The Units will be evidenced by a single global certificate held by The Canadian Depository for Securities Limited (“CDS”), or its nominee on its behalf, as registered holder of the Units. Registration of the interests in and transfers of the Units will be made only through the book-entry only system of CDS. No Holder will be entitled to a certificate or other instrument from the transfer agent for Units or CDS evidencing that person’s interest in or ownership of Units. See “Declaration of Trust and Description of Units – Book-Entry Only System”.

Eligibility for Investment:

In the opinion of McMillan Binch LLP, counsel to the Trust, and Osler, Hoskin & Harcourt LLP, counsel to the Agents, provided that the Trust qualifies as a “mutual fund trust” for the purposes of the Tax Act, Units offered hereby will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans. It is anticipated that Units will be “foreign property” for purposes of the tax imposed under Part XI of the Tax Act. See “Canadian Federal Income Tax Considerations” and “Eligibility for Investment”.

Canadian Federal Income Tax Considerations:

A Holder will generally be required to include in computing income for a taxation year the amount of the Trust’s net income for the taxation year, including net realized taxable capital gains, paid or payable to the Holder in the taxation year. Distributions paid out of the Trust’s capital gains will generally be treated as capital gains realized by Holders. The Trust may be required to pay foreign withholding tax on its foreign source income. Subject to the rules and limitations in the foreign tax credit rules in the Tax Act and assuming that the Trust makes the appropriate designations, a taxable Holder may be entitled to a tax credit for foreign withholding taxes paid by the Trust on the Holder’s share of the Trust’s foreign source income. A Holder who disposes of Units held as capital property (on 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 adjusted cost base of the Units and any reasonable costs of disposition. Each investor should satisfy himself or herself as to the federal and provincial tax consequences of an investment in Units by obtaining advice from his or her tax advisor. See “Canadian Federal Income Tax Considerations”.

Risk Factors:

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

- (i) there is no assurance that the Trust will be able to achieve its monthly distribution objective or its objective to endeavour to preserve and enhance the NAV in order to return at least the original subscription price of the Units to Holders on or about the Termination Date, and there is no guarantee that the Portfolio will earn any return; the Portfolio could be subject to losses;
- (ii) the NAV will vary according to, among other things, distributions paid on the Units, the value of the securities in the Portfolio, the performance of the convertible securities, high yield securities, income trust securities and equity markets generally, interest rates and foreign currency exposure;
- (iii) Units may trade in the market at a premium or a discount to the NAV per Unit and there can be no assurance that Units will trade at a price equal to the NAV per Unit;
- (iv) the risks of investing in convertible securities, including the volatility of the underlying equity securities;
- (v) the risks of investing in high yield debt securities, including default risk;
- (vi) the fact that income trusts depend on the financial performance of the related operating company and may also be subject to general risks associated with industry, business cycles, commodity prices, interest rates and other economic factors;
- (vii) the fact that investments in real estate investment trusts are subject to general risks associated with real property investments;
- (viii) counterparty risks associated with securities lending;
- (ix) the use of leverage in the Portfolio to enhance yield and that the Trust may use the maximum amount of leverage permitted;
- (x) the Trust’s lack of operating history and the current absence of a public trading market for the Units;

- (xi) reliance on the Investment Advisor, the Manager and key personnel;
- (xii) foreign currency exposure;
- (xiii) foreign market exposure;
- (xiv) the risks associated with interest rate changes and the sensitivity of market price of Units to interest rates;
- (xv) the possibility that the Investment Advisor will be unable to acquire or dispose of illiquid securities for the Portfolio;
- (xvi) the risks of investing in derivative instruments;
- (xvii) potential conflicts of interest;
- (xviii) status of the Trust for securities law purposes;
- (xix) possible changes in tax or other legislation;
- (xx) the fact that the Canada Customs and Revenue Agency has expressed a view that the amount of interest on money borrowed and used to invest in units of an income fund may not be fully deductible in certain circumstances based on the composition of a portfolio;
- (xxi) legal and statutory rights; and
- (xxii) the potential liability of Holders.

See "Risk Factors".

SUMMARY OF FEES AND EXPENSES

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

<u>Type of Charge</u>	<u>Description</u>
Fees payable to the Agents for selling Units:	\$1.3125 per Unit.
Expenses of issue:	The Trust will pay the expenses incurred in connection with the Offering, which are estimated to be \$700,000.
Management Fees:	As compensation for management services rendered to the Trust, the Manager is entitled to receive an annual management fee in an amount equal to 1.10% of the NAV calculated and payable monthly in arrears plus applicable taxes. The Manager is responsible for payment of the investment management fees of the Investment Advisor out of its annual management fees.
Ongoing expenses of the Trust:	The Trust will pay for all expenses incurred in connection with its operation and administration, estimated to be \$250,000 per annum (assuming an offering size of approximately \$100 million). See “Fees and Expenses – Ongoing Expenses”. The Trust will also be responsible for its other costs of portfolio transactions and any extraordinary expenses which may be incurred from time to time.
Service Fee:	The Trust will pay to registered dealers an annual service fee equal to 0.40% of the NAV per Unit for Units held by clients of the sales representatives of the registered dealers calculated and payable semi-annually in arrears.

THE TRUST

Convertible & Yield Advantage Trust (the “Trust”) is an investment trust established under the laws of the Province of Ontario pursuant to a declaration of trust dated as of September 24, 2003 (the “Declaration of Trust”) by Skylon Advisors Inc. (the “Manager”) as trustee (the “Trustee”) of the Trust. The Manager was incorporated under the *Business Corporations Act* (Ontario), as amended, on September 19, 2001, and is a wholly-owned subsidiary of Skylon Capital Corp. (“Skylon Capital”). The principal place of business of the Trust and the registered office of the Manager is BCE Place, 181 Bay Street, Suite 840, Toronto, Ontario M5J 2T3.

The beneficial interest in the net assets and net income of the Trust is divided into trust units of equal value (the “Units”).

Status of the Trust for Securities Law Purposes

The Trust is not a “mutual fund” for securities law purposes. As a result, some of the protections provided to investors in mutual funds under such laws will not be available to investors in the Units.

INVESTMENT GUIDELINES

The following sections “Investment Objectives and Strategy”, “Investment Restrictions”, “Use of Derivative Instruments” and “Loan Facility and Other Forms of Leverage” are referred to collectively in this prospectus as the Trust’s “Investment Guidelines”.

Investment Objectives and Strategy

The Trust’s investment objectives are to:

- (i) provide holders of Units (“Holders”) with a stable stream of monthly distributions of \$0.1458 per Unit (\$1.75 per annum to yield 7.0% on the subscription price of \$25.00 per Unit); and
- (ii) endeavour to preserve and enhance the net asset value of the Trust (the “NAV”) in order to return at least the original subscription price of the Units (\$25.00 per Unit) to Holders on or about October 31, 2013 (the “Termination Date”).

In order to achieve the Trust’s investment objectives, the net proceeds of the offering of Units (the “Offering”) will be invested in a portfolio consisting primarily of convertible fixed income securities, high yield securities and income trust securities (the “Portfolio”). It is expected that approximately 40% of the Portfolio will consist of convertible securities, 30% of the Portfolio will consist of high yield securities and 30% of the Portfolio will consist of income trust securities. Based on this allocation, it is anticipated that a significant portion of the distributions will consist of capital gains. The Investment Advisor (as defined below) will actively manage the allocation of the assets in the Portfolio amongst these three asset classes. At any particular time, between 20% and 80% of the Portfolio may consist of convertible securities, 10% to 50% of the Portfolio may consist of high yield securities and 10% to 50% of the Portfolio may consist of income trust securities.

MFC Global Investment Management (Canada), a division of Elliott & Page Limited, a Manulife company (the “Investment Advisor”) will be retained by the Manager as investment sub-advisor to provide investment advisory and portfolio management services and actively manage the Portfolio pursuant to an investment advisory agreement between the Manager and the Investment Advisor (the “Investment Advisory Agreement”). See “Investment Management – The Investment Advisory Agreement”.

Convertible securities to be included in the Portfolio will consist primarily of debt securities convertible into equity securities primarily of U.S. or Canadian public companies, but may also include private companies. High yield securities to be included in the Portfolio will consist primarily of debt securities including leveraged loans, primarily of U.S. issuers and to a lesser extent Canadian and European issuers. The convertible securities and high yield securities to be included in the Portfolio may also include equity securities. Income trust securities to be included in the Portfolio will consist primarily of Canadian publicly traded real estate investment trusts, oil and gas trusts, power and pipeline trusts and business trusts.

The Investment Advisor will select, monitor and actively manage the securities in the Portfolio and will allocate the assets in the Portfolio amongst these three classes of securities, subject to the investment restrictions relating thereto as set out below and as set forth in the Investment Advisory Agreement. Securities in the Portfolio will be selected by the Investment Advisor based on their expected return at time of purchase, net of foreign income or withholding taxes, relative to risk characteristics, taking into consideration factors such as credit quality and liquidity. Investments in the Portfolio will be diversified by issuer and sector. Canadian or U.S. government debt and/or cash equivalents may be held from time to time as market conditions dictate. The Investment Advisor is expected to purchase securities for the Portfolio in the open market and such securities may or may not include securities in which the Agents (as defined below) have participated in the distribution. See “Investment Management – The Investment Advisor”.

There can be no assurance that the Trust will be able to achieve its monthly distribution objective or its objective to endeavour to preserve and enhance the NAV to return at least the original subscription price of the Units to Holders on or about the Termination Date.

Investment Restrictions

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

- (i) **Purchasing Securities.** The Investment Advisor will not purchase securities other than through normal market facilities unless the purchase price therefor approximates the prevailing market price or is negotiated or established on an arm’s length basis.
- (ii) **Sector Diversification.** Not more than 15% of the total assets (determined at the time of purchase) of the Trust will be invested in securities of issuers which are included in the same industry (as determined by the Merrill Lynch Global Index System).
- (iii) **Concentration.** Except for any broadly diversified index-linked product, not more than 5% of the total assets (determined at the time of purchase) of the Trust will be invested in any one issuer and not more than 10% of the total assets of the Trust will be invested in securities of issuers outside of North America.
- (iv) **Control.** The Investment Advisor will not purchase securities if after such purchase the Trust would hold more than 10% of the outstanding voting securities of that issuer.
- (v) **Investment in Rated Instruments.** Not more than 15% of the total convertible and high yield assets (determined at the time of purchase) of the Trust will be invested in securities rated at the time of purchase below B- by Standard & Poor’s, a division of the McGraw-Hill Companies, Inc. (“Standard & Poor’s”) or an equivalent rating by Moody’s Investors Service, Inc. (“Moody’s”), or securities which have not been rated but which the Investment Advisor reasonably believes would, if rated, have a rating less than such ratings.
- (vi) **Leverage.** The Trust will not borrow money or employ other forms of leverage except that the Trust may borrow or employ other forms of leverage in an aggregate amount of up to 25% of the greater of: (i) the initial net asset value and (ii) the net asset value at the time the borrowing or other transaction is entered into, of the Units outstanding at such time. See “Loan Facility and Other Forms of Leverage” below.
- (vii) **Illiquid Securities.** Not more than 15% of the total assets (determined at the time of purchase) of the Trust will be invested in “illiquid securities”. The term “illiquid securities” for this purpose means securities that cannot be disposed of within seven days in the ordinary course of business at approximately the amount at which the securities are valued for the Trust.
- (viii) **Short Selling.** The Trust will not make short sales of securities or maintain short positions, except for the purpose of hedging to offset or reduce risks associated with any investment for the convertible securities component of the Portfolio.

- (ix) **Commodities.** The Investment Advisor will not purchase or sell commodities or commodity contracts for the Trust, except that the Investment Advisor may purchase and sell financial futures contracts and related options.
- (x) **No Underwriting.** The Trust will not act as an underwriter of securities of other issuers, except to the extent that in connection with the disposition of portfolio securities it is deemed to be an underwriter.
- (xi) **No Guarantee.** The Trust will not guarantee securities or obligations of another person or company.
- (xii) **Foreign Investment Entities.** The Trust will not invest in the securities of any non-resident corporation, trust or other non-resident entity if the Trust would be required to mark its investment in such securities to market in accordance with proposed section 94.2 of the Tax Act or to include any significant amount in income pursuant to proposed section 94.1 of the Tax Act, as set forth in the proposed amendments to the Tax Act dealing with foreign investment entities released on October 11, 2002 (or amendments to such proposals or provisions as enacted into law or successor provisions thereto).
- (xiii) **Tax Shelter Investment.** The Trust shall not make or retain any investment that is a “tax shelter investment” for purposes of section 143.2 of the Tax Act.
- (xiv) **Unit Trust.** The Trust will restrict its investments to the extent necessary to qualify as a “unit trust” and “mutual fund trust” for purposes of the Tax Act.

Use of Derivative Instruments

The Trust may invest in or use derivative instruments for hedging, investment or leverage purposes consistent with its investment objectives, strategy and restrictions. A derivative is generally an instrument, agreement or security, the market price, value or payment obligations of which are derived from, referenced to or based on an underlying security, interest, benchmark or formula.

Risks to be hedged against include fluctuations in currency values. It is expected that at least 90% of the Portfolio will be hedged back to the Canadian dollar at all times. Other risks to be hedged against may include credit market exposure and interest rate changes. While the Trust may purchase forward contracts for such hedge, it is not precluded from using other derivatives, such as put and call options on foreign currencies, to do so. A forward contract is a contract to exchange (buy or sell) an underlying instrument for a fixed forward price at a specific, future delivery date. A put option is an option that gives the purchaser of the option the right to sell, and obligates the writer of the option to purchase, the security underlying the option at a stated exercise price at any time prior to or at the expiration of the option. A call option gives the purchaser of the option the right to buy, and obligates the writer to sell, the underlying security at a stated exercise price at any time prior to or at the expiration of the option.

In pursuing its investment objectives, it is expected that the Trust may also enter into swap agreements with respect to interest rates, currencies, securities indexes and other assets and measures of risk or return. A swap agreement is an instrument that effects the exchange of a sequence of cash flows that derive from two different financial instruments. The Trust may also enter into options on swap agreements.

The Trust may also invest in “structured” notes, which are privately negotiated debt obligations where the principal and/or interest is determined by reference to the performance of a benchmark asset or market, or in other types of “hybrid” instruments which combine the characteristics of securities, futures, and options.

The Trust may make short sales of securities to offset or reduce risks associated with investments for the convertible securities component of the Portfolio. Short selling is the sale of a security not owned by the Trust, and the consequent requirement to borrow that security from a third party in order to settle the sale transaction. Short selling is often employed as an investment strategy in order to profit from an overpriced security or market. In particular, the Trust may short sell the underlying securities into which convertible securities may be converted. In doing so, the Trust will attempt to take advantage of mispricing between the market price of the convertible securities and the underlying securities.

The Trust may take long and short positions in other derivative instruments, including derivative instruments related to fixed income securities and indexes of fixed income securities. For example, the Trust may purchase and sell put options and call options on securities and securities indexes, enter into interest rate and index futures contracts and purchase and sell options on such futures contracts. The Trust may purchase and sell futures contracts on corporate debt obligations (to the extent they are available) and U.S. government securities, as well as purchase put and call options on such futures contracts. The Trust will only enter into futures contracts and futures options which are standardized and traded on a U.S. or other exchange, board of trade, or similar entity, or quoted on an automated quotation system.

The use of derivatives for leverage is discussed below under “Loan Facility and Other Forms of Leverage”.

Loan Facility and Other Forms of Leverage

In order to provide the Investment Advisor with the ability to use leverage to enhance the Portfolio’s return, the Trust may borrow pursuant to a loan facility (the “Loan Facility”) from a Canadian chartered bank or other lending institution (the “Lender”). It is expected that the terms, conditions, interest rates, fees and expenses of and under any Loan Facility would be typical for loans of this nature.

The Trust may also add leverage to the Portfolio by utilizing additional strategies, including but not limited to the use of reverse repurchase agreements, credit derivatives, and other derivative instruments.

In a reverse repurchase agreement, the Trust sells securities to a bank or broker-dealer and agrees to repurchase the securities at a mutually agreed date and price. Generally, the effect of such a transaction is that the Trust can recover and invest all or most of the cash invested in the portfolio securities involved during the term of the reverse repurchase agreement and still be entitled to the interest income associated with those portfolio securities. Such transactions are advantageous if the interest cost to the Trust of the reverse repurchase transaction is less than the cost of otherwise obtaining the cash.

Reverse repurchase agreements involve leverage risk and also the risk that the market value of the securities that the Trust is obligated to repurchase under an agreement may decline below the repurchase price. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, the Trust’s use of the proceeds of the agreement may be restricted pending a determination by the other party, or its trustee or receiver, whether to enforce the Trust’s obligation to repurchase the securities.

The Trust may also enter into credit derivatives for investment purposes and to add leverage to the Portfolio. For example, as the seller in a credit default swap contract, the Trust would be required to pay the par (or other agreed-upon) value of a referenced debt obligation to the counterparty in the event of a default by a third party, such as a U.S. or other foreign corporate issuer, on the debt obligation. In return, the Trust would receive from the counterparty a periodic stream of payments over the term of the contract provided that no event of default has occurred. If no event of default occurs, the Trust would keep the stream of payments and would have no payment obligations. As the seller, the Trust would effectively add leverage to its portfolio because, in addition to its total net assets, the Trust would be subject to investment exposure on the notional amount of the swap.

The Loan Facility and other forms of leverage will permit the Trust to borrow monies or employ other forms of leverage to purchase additional securities for the Portfolio in accordance with the investment guidelines and restrictions relating to the Trust. The Trust intends to use such leverage, when market conditions are appropriate, to attempt to increase the potential returns of the Trust by taking advantage of the spread between the potential return on additional investments in the Portfolio and the cost of borrowing the purchase price for such investments. The use of leverage to enhance returns on the Portfolio may result in capital losses or a decrease in net cash distributions to Holders. It is anticipated that, with respect to any Loan Facility or other leverage, the Lender or other party will require the Trust to provide a security interest in some or all of its assets in favour of the Lender or other party to secure such borrowings or other leverage. The Manager will ensure that, in the event of default under any Loan Facility or other leverage arrangement, the Lender’s recourse will be limited to the assets of the Trust.

The aggregate amount of borrowings under the Loan Facility and other forms of leverage may not exceed 25% of the greater of: (i) the initial net asset value and (ii) the net asset value at the time the borrowing or other transaction is entered into, of the Units outstanding at such time. In the event that the total amount borrowed, or otherwise subject to leverage, by the Trust exceeds the 25% limit as a result of redemptions or other

decrease in the number of Units, indebtedness or other leverage will be reduced on an orderly basis as soon as practicable so that the amount borrowed or otherwise subject to leverage does not exceed such limit.

Other than borrowings by the Trust under a Loan Facility, together with the other forms of leverage described above, and short-term credits necessary for settlement of securities transactions, which are not considered borrowing, the Trust will not engage in borrowing.

Securities Lending

In order to generate additional returns, the Trust may lend securities in the Portfolio to brokers, dealers, and other financial institutions provided that: (i) the borrower will pay to the Trust a negotiated securities lending fee and will make compensation payments to the Trust equal to any distributions received by the borrower on the securities borrowed; (ii) the securities loans must qualify as “securities lending arrangements” for the purposes of the Tax Act; and (iii) the Trust will receive prescribed collateral security. The minimum level of collateralization in respect of a loan of Portfolio securities will be 100%. The Trust may also receive a fee or interest on the collateral, and may pay lending fees to a party arranging the loan.

THE CONVERTIBLE SECURITIES MARKET

As of June 30, 2003, the North American convertible securities market was estimated to be in excess of U.S.\$300 billion, including an estimated U.S.\$20 billion issued by Canadian corporations. The convertible securities market has grown considerably over the six-month period ended June 30, 2003. According to Morgan Stanley, the issuance of new convertible securities has increased 30% over the comparable period in 2002, with a total of U.S.\$55.3 billion issued. According to Morgan Stanley, total new convertible securities issuances, including refinancings, has increased more than six-fold year over year.

Convertible securities give the holder of the security a right to convert to a specified number of underlying securities of the same issuer. A typical convertible security is a bond that can be exchanged at the option of the holder for a specific number of the issuer’s common shares. Similar to regular bonds, convertible bonds pay a fixed rate of interest and require repayment of principal, but also provide the holder with equity participation through the conversion feature. The convertible securities market offers an attractive range of security types with distinctive risk and return profiles. The spectrum of securities within the market ranges from those with more fixed income characteristics, such as cash coupon convertible securities and zero coupon bonds, to those with more equity security characteristics, such as convertible preferred stock.

Convertible securities are designed to provide various payout structures that can be advantageous to different types of investors and/or under different market conditions. Advantages of convertible securities, which depend in part on the type of security issued, may include enhanced yield over the underlying security, downside protection through distribution or liquidation seniority over equity security holders, and an increased payment that is related to the underlying stock price. The specific convertible security chosen for investment can have a large impact on the return achieved as maturity, call, put and conversion features can all vary, affecting the degree of stock price participation. For example, zero coupon bonds generally offer considerable downside protection, but do not provide current income. Cash coupon convertible bonds provide income, short to mid-term protection from fluctuating markets and some equity participation. Similarly, convertible preferred stock can provide higher current income than common stock while offering greater equity participation than a convertible bond; however convertible preferred stock generally provides less downside protection than convertible bonds. Convertible securities are more consistently liquid than high yield securities as a result of the liquidity of the underlying securities, which are usually exchange-traded.

THE HIGH YIELD SECURITIES MARKET

As of June 30, 2003, U.S. corporate high yield debt outstanding was estimated to be approximately U.S.\$850 billion. The principal amount of new high yield debt issues has exceeded U.S.\$50 billion since 1996, and, according to Merrill Lynch, as of June 30, 2003 has exceeded U.S.\$60 billion.

High yield debt securities are a distinct asset class with potentially attractive risk/return characteristics. High yield securities are generally considered to be securities that are rated at or below BB+ (a rating category of Standard & Poor’s), or at or below Ba1 (a rating category of Moody’s). High yield securities also include securities that are not

formally rated by an “approved rating organization” as defined in National Instrument 81-102 of the Canadian Securities Administrators (“NI 81-102”) but that bear yields equivalent to comparable rated securities.

The prices at which high yield securities trade vary over time based on such factors as term to maturity, interest and currency rate fluctuations, the liquidity of the security, underlying changes in the risks associated with the issuer of the securities (such as the credit quality of the issuer, business changes affecting a corporate issuer or political or economic risks affecting a government issuer), investor demand, and general economic trends. The yield of a high yield debt security at a specific time is typically calculated on a “yield-to-worst” basis (the return to be earned on the security using the lower of the yield to maturity and the yield to call, taking into account the discounted value of the future interest and principal payments).

High yield debt securities are generally more sensitive to economic events than other fixed income investments. The strength or weakness of the high yield debt market typically mirrors the relative strength or weakness in the economy as a whole, reflecting either market confidence or uncertainty, as the case may be. The high yield debt market also differs significantly in many ways from equity markets. As there are no formal exchanges on which many high yield debt securities trade, there may be less liquidity for investors, resulting in less certain trading values at any given time. In addition, high yield debt securities in the United States have a relatively low historical correlation of return to alternative fixed income investments or equity investments, which provides diversification benefits for investors.

THE INCOME TRUST SECURITIES MARKET

The income trust market has grown substantially since December 2000. From December 2000 to June 30, 2003, 61 initial public offerings of income trusts were completed, raising a total of approximately \$26.5 billion. Based on offerings of income trusts since 2000, the number of issuers in the income trust market has increased by approximately 96%. The Investment Advisor expects the growth in the income trust market to continue in the short term.

Income funds are trusts, limited partnerships or other entities which are generally structured to own debt and/or equity of an underlying company or other entity which carries on an active business, owns real estate assets, or a royalty in revenues generated by the assets of an underlying company or other entity which carries on an active business. The variety of businesses upon which income funds have been created has become very broad, both in the nature of the underlying industry and assets and in geographic location. The income trusts in the Portfolio are expected to consist primarily of Canadian publicly traded real estate investment trusts, oil and gas trusts, power and pipeline trusts and business trusts. As income trust securities are exchange-traded, holders of such securities benefit from increased liquidity.

Income trusts are structured to minimize the double taxation that normally occurs with operating companies. By having a trust or partnership own equity and debt securities of an operating business, income tax can be minimized at the operating company level. Distributions from income funds may include the following components: interest, or ordinary income dividends, and return of capital. The return of capital is not taxable to a unitholder in the year of distribution, but will reduce the adjusted cost base for tax purposes of the unitholders’ trust units.

Certain income trusts are constituted as royalty trusts. Royalty trusts are also structured to minimize the double taxation that normally occurs with corporations. Royalty trusts own a royalty income stream from an operating subsidiary company which provides the principal source of distributable income for the trust. Royalty trusts are largely in the oil and gas sector although it is possible to have royalty trusts in other industries as well. In some cases, the purchase of the royalty provides the royalty trust with certain tax incentives which reduce taxable income at the royalty trust level, but which do not affect the amount of cash that can be distributed to the unitholders by the royalty trust. That portion of the cash distributions made by the royalty trust which is not taxed in the hands of the unitholders in the year of distribution is generally treated as a return of capital to unitholders and reduces the unitholders’ adjusted cost base for tax purposes.

MANAGEMENT OF THE TRUST

The Manager

The Manager will perform the management functions for the Trust pursuant to the Declaration of Trust. The Manager will provide all administrative services required by the Trust and will retain the Investment Advisor to implement the investment strategy of the Trust. The Manager is a wholly-owned subsidiary of Skylon Capital. Skylon Capital, through its wholly-owned subsidiaries, has over \$600 million in assets under management and is the manager of Skylon International Advantage Yield Trust, Skylon Global Capital Yield Trust and Skylon Global Capital Yield Trust II, which provide investors with exposure to returns on portfolios of global debt securities advised by Pacific Investment Management Company LLC; Saxon Diversified Value Trust, which provides investors with exposure to the return on a portfolio of securities of Canadian publicly traded ongoing business income trusts and resource and real estate income trusts advised by Howson Tattersall Investment Counsel Ltd.; Skylon Capital Yield Trust, which provides investors with exposure to the return on a portfolio of high yield debt securities advised by Marret Asset Management Inc.; is the administrator of Tremont Capital Opportunity Trust, which provides investors with exposure to the return on a portfolio of hedge funds advised by Tremont Capital Management, Corp. and manages the VentureLink group of labour-sponsored investment funds which currently include: VentureLink Diversified Income Fund Inc., with a focus on securities which generate a superior level of income; VentureLink Diversified Balanced Fund Inc., with a focus on community small business investment fund corporations; VentureLink Fund Inc., with a focus on emerging technology companies; VentureLink Financial Services Innovation Fund Inc., with a focus on growing companies in the financial services industry; and VentureLink Brighter Future (Equity) Fund Inc. and VentureLink Brighter Future (Balanced) Fund Inc., with a focus on infrastructure and “essential services” industries such as energy, water and waste management. The Manager carries on business at BCE Place, 181 Bay Street, Suite 840, Toronto, Ontario M5J 2T3.

As announced on August 21, 2003, an agreement has been made for the sale of all of the shares of Skylon Capital to CI Fund Management Inc. Closing of the transaction, which is subject to regulatory approval and other conditions, is expected to occur in October 2003. Gordon A. McMillan, the Chief Executive Officer of Skylon Capital, will stay on in an advisory capacity to CI Fund Management Inc. with respect to labour-sponsored and structured funds. CI Fund Management Inc. has approximately \$35.1 billion in fee-earning assets as at July 31, 2003. There is no assurance that all conditions of closing will be satisfied and that the transaction will be completed.

Duties and Services to be Provided by the Manager

Pursuant to the Declaration of Trust, the Manager is the trustee of the Trust and will perform the management functions for the Trust. The Manager has exclusive authority to manage the operations and affairs of the Trust, to make all decisions regarding the business of the Trust and to bind the Trust. The Manager may delegate certain of its powers to third parties, including by entering into a management agreement, where, in the discretion of the Manager, it would be in the best interests of the Trust to do so. Among other restrictions imposed on the Manager, it may not dissolve the Trust or wind up the Trust’s affairs except in accordance with the provisions of the Declaration of Trust.

The Manager’s duties will include: maintaining accounting records for the Trust; authorizing the payment of operating expenses incurred on behalf of the Trust; calculating the amount and determining the frequency of distributions by the Trust; preparing financial statements, income tax returns and financial and accounting information as required by the Trust; ensuring that Holders are provided with financial statements and other reports as are required from time to time by applicable law; ensuring that the Trust complies with regulatory requirements including the continuous disclosure requirements of the Trust under applicable securities laws; preparing the Trust’s reports to Holders and to the Canadian securities regulators; obtaining the information and reports necessary for it to fulfil its fiduciary responsibilities; administering the redemption of Units; administering the market purchases of Units; dealing and communicating with Holders; and negotiating contracts with third-party providers of services, including, but not limited to, custodians, transfer agents, auditors and printers. The Manager will provide office facilities and personnel to carry out these services, together with clerical services which are not furnished by the custodian, valuation agent or transfer agent of the Trust.

The Manager will retain the Investment Advisor to provide investment advisory and portfolio management services with respect to the Portfolio and will monitor the Trust’s investment strategy to ensure compliance with the Investment Guidelines, and that the net proceeds of the Offering are invested as described under “Use of Proceeds”. The Investment Advisor will also provide recommendations to assist the Manager in determining whether and to what extent the Trust should use leverage.

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

As compensation for management services rendered to the Trust, the Manager is entitled to receive an annual management fee in an amount equal to 1.10% of the NAV calculated and payable monthly in arrears plus applicable taxes. The Manager is responsible for payment of the investment management fees of the Investment Advisor out of its annual management fees.

The Advisory Board

The Trust will establish an advisory board (the “Advisory Board”) consisting of two members appointed by the Manager to provide independent advice to the Manager in order to assist the Manager, as requested, in performing its services under the Declaration of Trust. The members of the Advisory Board will be Philip Armstrong and Iain Robb, both of whom are independent of the Manager. All fees and expenses of the Advisory Board will be paid by the Trust and have been included in the Trust’s estimated annual operating expenses of \$250,000.

Philip Armstrong has been a leader in the Canadian financial services industry for over two decades. He is currently the Chief Executive Officer of Jovian Capital Corporation, a management and holding company investing in the financial services sector. From 1997 to 2000, Mr. Armstrong served as a Managing Director and as a Director of Altamira Investment Services Inc. (“AISI”). Mr. Armstrong served as President and Chief Executive Officer of AISI’s mutual fund dealer subsidiary between 1989 and 1997. Mr. Armstrong has also served as a Director of AISI’s investment counsellor subsidiary. Prior to joining AISI, Mr. Armstrong was a Vice President at Morgan Trust Company of Canada. Mr. Armstrong is past chair of the Investment Funds Institute of Canada and the Mutual Fund Dealers Association. In addition, Mr. Armstrong is a Director of VentureLink Brighter Future (Equity) Fund Inc., VentureLink Brighter Future (Balanced) Fund Inc. and VentureLink Financial Services Innovation Fund Inc., all of which are labour sponsored investment funds, and is a member of the advisory boards of Skylon Capital Yield Trust, Skylon Global Capital Yield Trust, Skylon Global Capital Yield Trust II, Skylon International Advantage Yield Trust and Saxon Diversified Value Trust. Mr. Armstrong is active in various charitable organizations, both in Canada and Ireland. Mr. Armstrong holds a Bachelor of Arts (Law) Honours degree from the School of Law at Manchester Polytechnic.

Iain A. Robb is a partner of the law firm Gowling Lafleur Henderson LLP, where he is a member of the corporate and securities departments. Mr. Robb’s practice is focused on corporate and securities matters with a particular emphasis on mutual funds and structured investment products. Mr. Robb holds a Bachelor of Laws degree from the University of Toronto and a Bachelor of Arts (Industrial Relations) degree from McGill University. In addition, Mr. Robb is a Director of several labour sponsored investment funds including VentureLink Fund Inc., VentureLink Brighter Future (Equity) Fund Inc., VentureLink Brighter Future (Balanced) Fund Inc. and VentureLink Financial Services Innovation Fund Inc. and is a member of the advisory boards of Skylon Capital Yield Trust, Skylon Global Capital Yield Trust, Skylon Global Capital Yield Trust II, Skylon International Advantage Yield Trust and Saxon Diversified Value Trust.

Accounting and Reporting

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

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

Officers and Directors of the Manager

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

<u>Name and Municipality</u>	<u>Position with the Manager</u>	<u>Principal Occupation</u>
GORDON A. McMILLAN Oakville, Ontario	Chief Executive Officer and Director	Chief Executive Officer of Skylon Capital
COLIN S. MERCIER Toronto, Ontario	President and Director	President of Skylon Capital
ANDREW A. MCKAY Bridgetown, Barbados	Chief Financial Officer, Corporate Secretary and Director	Chief Financial Officer of Skylon Capital
GEOFFREY D. HORTON Toronto, Ontario	Vice President	Vice President of the Manager
TIMOTHY J. DIAMOND Oakville, Ontario	Managing Director and Director	Managing Director of Skylon Capital
SUSAN E. COLEMAN Campbellville, Ontario	Chief Investment Officer and Director	Chief Investment Officer of the Manager
WILLIAM JAMES WHITAKER ⁽¹⁾ Toronto, Ontario	Managing Director	Managing Director of the Manager
JOHN S. VARGHESE Toronto, Ontario	Managing Director	Managing Director of the Manager

⁽¹⁾ Subject to regulatory approval.

Gordon A. McMillan is the Chief Executive Officer and a Director of the Manager. Mr. McMillan also serves as Chief Executive Officer and Director of Skylon Capital, a private Ontario-based investment management firm holding company and VentureLink Capital Corp. (“VentureLink Capital”), a private Ontario-based venture capital firm. Prior to co-founding VentureLink Capital, Mr. McMillan was the founder and Chief Executive Officer of Triax Capital Holdings Ltd. (“Triax”), a Canadian investment management firm. In addition, Mr. McMillan is the Chief Executive Officer of the VentureLink group of labour sponsored investment funds. Mr. McMillan has served as a director for a number of financial services firms including First Asset Management Inc. (formerly First International Asset Management Inc.), a financial services industry consolidator and Beutel, Goodman & Company Ltd. Mr. McMillan holds a Bachelor of Laws degree from Queen’s University and is a member of the Law Society of Upper Canada.

Colin S. Mercier is the President and a Director of the Manager. Mr. Mercier is the President and a Director of both VentureLink Capital and Skylon Capital. In addition, Mr. Mercier is a Director of the VentureLink group of labour sponsored investment funds. Prior to co-founding VentureLink Capital in June 2000, Mr. Mercier was the Head of the Financial Services and Diversified Industries Investment Banking Group at Merrill Lynch Canada Inc. Prior to that, Mr. Mercier was a Senior Vice President and Director of Midland Walwyn Capital Inc.’s Investment Banking Group. Mr. Mercier has 15 years of experience in the financial services industry including advising clients on capital market transactions and strategic initiatives. Mr. Mercier has served on the board of a number of entities including Midland Walwyn Capital Inc. and New Millennium Venture Fund Inc. Mr. Mercier has a Master of Business Administration from the University of Western Ontario and a Bachelor of Arts (Economics) degree from the University of Western Ontario.

Andrew A. McKay is the Chief Financial Officer, Corporate Secretary and a Director of the Manager and the Chief Financial Officer and a Director of Skylon Capital. Prior to co-founding Skylon Capital, Mr. McKay was a Director of Altamira International Bank (Barbados) Inc., the offshore asset management subsidiary of Altamira Management Ltd. (“Altamira”) and an officer of Ivory & Sime plc, a leading UK investment management firm. Mr. McKay is a Fellow of both the Institute of Chartered Management Accountants and the Institute of Chartered Secretaries and Managers.

Geoffrey D. Horton is the Vice President of the Manager. Mr. Horton joined the Manager in October 2001 after taking a two year sabbatical. From 1995 to 1999, Mr. Horton was an Investment Advisor, Senior Investment Analyst and Investment Analyst at Working Ventures Canadian Fund Inc. (“Working Ventures”), a labour sponsored investment fund focusing on early and later stage venture capital investing. While at Working Ventures, Mr. Horton led an array of investment transactions, sat on the boards of several private companies, and was involved in Working Ventures’ internal Valuation Review Group. Prior to that he was a bond broker at Freedom International, an agent facilitating trade between investment dealers, from 1992 to 1995. Mr. Horton holds a Bachelor of Commerce (Honours) degree from Queen’s University and has the Chartered Financial Analyst designation.

Timothy J. Diamond is a Managing Director and a Director of the Manager and Skylon Capital. Prior to co-founding the Manager, Mr. Diamond was co-founder and Executive Vice-President of Triax and co-founder of New Millennium Internet Ventures Fund Inc. While at Triax, Mr. Diamond was head of sales and marketing for a number of structured investment products and tax-assisted investment products. Prior to joining Triax, Mr. Diamond was a Marketing Manager of BPI Mutual Funds. Mr. Diamond has extensive sales and marketing experience both inside and outside the financial services industry. Mr. Diamond holds a Bachelor of Arts (Economics) degree from the University of Western Ontario.

Susan E. Coleman is the Chief Investment Officer and a Director of the Manager. Ms. Coleman joined the Manager in October 2000 after taking a one year sabbatical. Ms. Coleman was a Vice President Equities, Research Analyst and Portfolio Manager of Altamira, for whom she worked from 1993 until October 1999. Prior to joining Altamira, Ms. Coleman held different portfolio management positions dating back to 1982. Ms. Coleman has been engaged in the investment business since 1979. While at Altamira, Ms. Coleman managed the Altamira Special Growth Fund, a traditional mutual fund investing in Canadian companies with market capitalization of approximately \$150 million or less as well as other similarly focused funds, and co-managed Triax Growth Fund Inc., a labour sponsored investment fund focused on later stage venture capital investing. Ms. Coleman currently co-manages VentureLink Fund Inc., a labour sponsored investment fund focused on venture capital investment in technology companies. Ms. Coleman holds a Bachelor of Arts (Honours) degree from Carleton University and has the Chartered Financial Analyst designation.

William James Whitaker is a Managing Director of the Manager. Mr. Whitaker joined the Manager in March, 2003. While at Working Ventures from 1994 to December 2002 Mr. Whitaker, as leader of the information technology team, led a number of investment transactions, sat on the boards of several private companies, and was a member of Working Ventures’ investment committee. Prior to such time, Mr. Whitaker worked at Ernst & Young LLP providing financial advisory services to mid-market companies in a wide range of industries. Mr. Whitaker is a Chartered Accountant and a Chartered Business Valuator. Mr. Whitaker holds a Bachelor of Commerce degree from McGill University.

John S. Varghese is a Managing Director of the Manager. Mr. Whitaker joined the Manager in April, 2003. Prior to joining the Manager, Mr. Varghese was a managing partner at JV Venture Partners from 2000 to 2003, a firm that specialized in advisory, strategy and corporate restructuring for high growth companies. Prior to this, Mr. Varghese was a partner and vice-president at eLab Technology Ventures Inc. where he was responsible for the venture capital and operational functions of the firm. Mr. Varghese has many years of management, venture capital and investment banking experience, in a number of industries, in both the private and public context. In addition, his previous positions include senior management roles at Midland Walwyn Capital Inc., Dell Computer Corporation and Jim Pattison Industries Ltd. Mr. Varghese is a Chartered Accountant and holds a Bachelor of Arts degree from the University of Western Ontario.

Conflict of Interest

The services of the Manager and its officers and directors are not exclusive to the Trust. The Manager or any of its affiliates and associates may, at any time, engage in the promotion, management or investment management of any other fund or trust which invests primarily in securities in the Portfolio, and provide similar services to other investment funds and other clients and engage in other activities. Investment decisions for the Trust will be made independently of those made for other clients and independently of investments of the Manager. On occasion, however, the Manager may make the same investment for the Trust and for one or more of its other clients. If the Trust and one or more of the other clients of the Manager are engaged in the purchase or sale of the same security, the transactions will be effected on an equitable basis.

INVESTMENT MANAGEMENT

The Investment Advisor

The Manager will retain the Investment Advisor to implement the investment strategy of the Trust and to select and actively manage the Portfolio, including the allocation of the assets in the Portfolio amongst the three classes of securities, in a manner consistent with the Investment Advisory Agreement. The Investment Advisor is a division of Elliott & Page Limited, a Manulife company. Elliott & Page Limited was founded in 1949 and is a wholly-owned subsidiary of Manulife Financial Corporation. The principal office of the Investment Advisor is located at 200 Bloor Street East, Toronto, Ontario, Canada, M4W 1E5.

The Investment Advisor provides investment advisory and portfolio management services to institutional clients and investment funds. As of June 30, 2003, the Investment Advisor had approximately \$69.7 billion in assets under management.

The portfolio managers of the Investment Advisor who will be primarily responsible for the Portfolio are Terry Carr, who will be responsible for managing convertible securities and high yield securities, as well as the allocation of securities between the three asset classes in the Portfolio, and Alan Wicks, who will be responsible for managing income trust securities.

The Investment Advisor's Portfolio Management Strategy

The Investment Advisor's philosophy encompasses a fundamentally driven research process that focuses on current income and capital appreciation, with the aim of maximizing relative value and minimizing loss of capital. Portfolio construction will be fundamentally driven from bottom-up research overlaid with a quantitative risk assessment strategy. The Investment Advisor will not invest in any securities for the Portfolio without thorough review and analysis which includes an assessment of the context within the overall objectives and risk exposure of the Portfolio. When evaluating individual securities, the Investment Advisor's team first thoroughly studies the issuer to understand the nature of its business. Regular meetings and intraday communication will contribute to asset mix and sector selection decisions.

The Investment Advisor currently has a nine-person team employing a generalist/specialist system to convertible, high yield and income trust securities management. The Investment Advisor's team is composed of four generalists, overseen by a senior portfolio manager, who each combine the responsibilities of portfolio manager and analyst in one role, and who are accountable for particular sectors. These individuals are bottom-up managers who employ an active style and who maintain constant communication with their wide network of information contacts. The Investment Advisor's team of specialists includes two quantitative-oriented analysts, who provide economic forecasting, perform complex modelling and correlation analysis and support the portfolio managers.

The Investment Advisor's team has included convertible securities within a number of high yield portfolio mandates, in order to take advantage of unique investment and capital gains opportunities that are otherwise not available through investing in corporate debt. In selecting convertible securities for the Portfolio, the Investment Advisor will focus on obtaining current income and principal protection. To achieve this goal, the Investment Advisor will utilize its experience and credit research in high yield and corporate bonds and engage in an ongoing process of rigorous fundamental credit analysis and proprietary quantitative risk modelling to maximize relative value. The Investment Advisor will then use secondary security selection filters to focus on growth metrics in order to target the capital appreciation potential of each individual security. The Investment Advisor expects that the convertible security asset class within the Portfolio will be comprised mainly of high quality, convertible fixed income securities and, to a lesser extent, hybrid and equity sensitive convertible securities. The Investment Advisor will also select convertible securities with a view to appropriate diversification by industry, credit quality, maturity and sensitivity to mitigate risk and compliance with the Investment Guidelines.

The Investment Advisor will purchase securities for the high yield securities component of the Portfolio with a bias towards more stable debt, primarily of issues rated BB and B by Standard & Poor's.

In selecting income trust investments for the Portfolio, the Investment Advisor will adhere to its guiding investment approach, which emphasizes high quality securities, liquidity and capital preservation. The Investment

Advisor will not invest in any issuer without first gaining an understanding of the business model, generally through meeting with senior management of the issuer, and carrying out its own fundamental financial analysis.

Services Provided by the Investment Advisor

The Investment Advisor will provide investment advisory and portfolio management services to the Manager with respect to the Portfolio. Decisions as to the purchase and sale of Portfolio securities and as to the execution of all portfolio transactions will be made by the Investment Advisor, in accordance with and subject to the terms of the Investment Advisory Agreement. The Investment Advisor will provide recommendations to the Manager with respect to borrowing and other forms of leverage by the Trust. Subject to the terms of the Investment Advisory Agreement, the Investment Advisor will implement the investment strategy and determine rating, security type, and allocation of the assets amongst the three classes of securities for the Portfolio on an ongoing basis. The Investment Advisor will seek specific investment opportunities where it believes there is a positive divergence between the potential return and the underlying risk inherent in the security. In making this determination, the Investment Advisor will use a review process that includes assessment and analysis of financial leverage, credit risk, business risk, industry risk, currency risk, issuer size, liquidity and volatility of the investment.

The Investment Advisory Agreement

The Investment Advisory Agreement between the Manager and the Investment Advisor, unless terminated as described below, will continue until the Termination Date. The Manager may terminate the Investment Advisory Agreement: (i) upon 60 days' notice; (ii) in the event that the Investment Advisor is in material breach of the Investment Advisory Agreement (a "Material Breach") and the Material Breach has not been cured within 20 Business Days' (any day on which the Toronto Stock Exchange is open for trading, hereinafter referred to as a "Business Day") notice thereof to the Investment Advisor; (iii) if there is a dissolution and commencement of winding-up of the Investment Advisor; (iv) if the Investment Advisor becomes bankrupt or insolvent or makes a general assignment for the benefit of its creditors or a receiver is appointed in respect of the Investment Advisor or a substantial portion of its assets; (v) if the assets of the Investment Advisor become subject to seizure or confiscation by any public or governmental organization; (vi) if the Investment Advisor has lost any registration, license or other authorization required by it to perform the services delegated to it thereunder; or (vii) if the Investment Advisor has acted with wilful misconduct or negligence and as a result of such action there has been a material adverse effect on the Portfolio.

The Investment Advisory Agreement will not be subject to termination under clause (ii) above if a Material Breach cannot be cured within 20 Business Days' notice thereof but the Investment Advisor commences the cure within the 20 Business Day period and completes the cure within 45 days of such notice. In addition, if the Investment Advisor purchases or sells a portfolio security or takes any other action with respect to the assets of the Portfolio that violates any investment policy or restriction set forth in the Investment Advisory Agreement and the violation has or will have a material adverse effect on the Portfolio, then it will not be considered a Material Breach for purposes of the termination right in (ii) above if the Investment Advisor takes action that returns the Portfolio to compliance with such investment policy or restriction within the cure period described above, as the same may be extended. The Investment Advisor may terminate the Investment Advisory Agreement, without payment of any penalty: (i) upon 90 days' notice; (ii) in the event the Manager is in Material Breach of the provisions thereof and such Material Breach has not been cured within 20 Business Days' notice of such breach to the Manager; (iii) if there is a material change in the Investment Guidelines relating to the Trust; (iv) if there is a dissolution and commencement of winding-up of the Trust; or (v) if the Trust becomes bankrupt or insolvent or makes a general assignment for the benefit of its creditors or a receiver is appointed in respect of the Trust or a substantial portion of its assets.

In the Investment Advisory Agreement, the Investment Advisor covenants to act at all times on a basis which is fair and reasonable to the Manager and the Trust, to act honestly and in good faith with a view to the best interests of the Trust and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent portfolio manager would exercise in the circumstances. The Investment Advisory Agreement provides that the Investment Advisor will not be liable in any way for any default, failure or defect in any of the securities comprising the Portfolio if it has satisfied the duties and the standard of care, diligence and skill set forth above. The Investment Advisory Agreement also requires the Trust to indemnify the Investment Advisor and its officers, directors and employees (collectively, "Indemnified Persons"), out of the assets of the Portfolio only, against all liabilities, losses and expenses incurred by any of them in connection with any matter relating to the Portfolio, unless an Indemnified Person is finally adjudicated to have committed a material breach or default of its obligations under the Investment Advisory Agreement

or an act or omission involving wilful misfeasance, bad faith, gross negligence or reckless disregard of such person's duties under the Investment Advisory Agreement.

In the event that the Investment Advisory Agreement is terminated as provided above, the Manager shall promptly appoint a successor investment sub-advisor to carry out the activities of the Investment Advisor until a meeting of Holders is held to confirm such appointment.

The Manager is responsible for payment of the investment management fees of the Investment Advisor out of its annual management fees. See "Fees and Expenses – Management Fees".

Key Members of the Investment Advisor

The following officers of the Investment Advisor are among those who are engaged in providing advice and services under the Investment Advisory Agreement:

<u>Name and Municipality</u>	<u>Position with the Investment Advisor</u>	<u>Principal Occupation</u>
TERRY CARR Toronto, Ontario	Vice President and Senior Portfolio Manager	Vice President and Senior Portfolio Manager of the Investment Advisor
ALAN WICKS Mississauga, Ontario	Vice President and Senior Portfolio Manager	Vice President and Senior Portfolio Manager of the Investment Advisor

Terry Carr is a Vice President and Senior Portfolio Manager of the Investment Advisor. He originally joined the Investment Advisor in 1987 and served as Assistant Vice President High Yield Bonds before his departure in 1996. Prior to joining the Investment Advisor, Mr. Carr dealt with U.S. fixed income investments at The Canada Life Assurance Company from 1986 to 1987, during which time he managed a U.S. dollar convertible bond portfolio. He rejoined the Investment Advisor in 2002 where he now leads the High Yield Bond Group, one of Canada's largest high yield bond teams. Mr. Carr has 18 years of investment experience. From 1996 to 1999 Mr. Carr built and managed the high yield bond department at a Schedule I Canadian chartered bank. From May 1999 to February 2002 he was Chief Executive Officer of Tarian Capital Management Inc., an investment advisory firm focused on advising in the areas of high yield debt and distressed securities. Mr. Carr holds a Bachelor of Business Administration (Honours) degree from York University and has the Chartered Financial Analyst designation.

Alan Wicks is a Vice President and Senior Portfolio Manager of the Investment Advisor. He joined the Investment Advisor in 1996 and leads the Canadian Value Team responsible for the value equity and income trust portfolios. Mr. Wicks focuses on the fundamental research of Canadian equities and income funds included in all the Investment Advisor's institutional and retail mandates as well as being a portfolio manager for retail mandates. Prior to joining the Investment Advisor, Mr. Wicks held the position of Supervisor, Pension Accounting at Aetna Life Insurance Company of Canada ("Aetna Canada"). Mr. Wicks began his investment career at Aetna Canada in 1991 as a Financial Analyst. He holds a Bachelor of Arts (Economics) degree from the University of Toronto and has the Chartered Financial Analyst designation.

Conflict of Interest

The services of the Investment Advisor and its officers and directors are not exclusive to the Trust. The Investment Advisor or any of its affiliates and associates may serve as an investment manager for other investment vehicles with similar investment objectives as the Trust and may at certain times be simultaneously seeking to purchase or dispose of investments for its respective account, the Trust, any similar entity for which it serves as manager or advisor and for its other clients or affiliates. In such circumstances the quantity of a security available at the same price may be insufficient to satisfy the requirements of every client, or the quantity of a security to be sold may be too large to be completed at the same time. Similarly, new issues of a security may be insufficient to satisfy the total requirements of all clients. Under such conditions, the Investment Advisor will allocate among clients, insofar as it is possible, such purchases or sales in accordance with its trade allocation policy in effect from time to time, generally on a *pro rata* basis. See "Risk Factors".

THE TRUSTEE

Skylon Advisors Inc. is the trustee of the Trust pursuant to the provisions of the Declaration of Trust. The Trustee is a wholly-owned subsidiary of Skylon Capital. The Trustee is responsible for certain aspects of the day-to-day administration of the Trust as described in the Declaration of Trust.

The Trustee or any successor trustee may resign upon 60 days' written notice to Holders or may be removed by an Extraordinary Resolution (as defined under "Holder Matters – Meetings of Holders and Extraordinary Resolutions") of the Holders in the event the Trustee is in material breach or default of the provisions of the Declaration of Trust and, if capable of being cured, such breach or default has not been cured within 20 Business Days' notice of such breach or default. Any such resignation or removal shall become effective only on the acceptance of appointment by a successor trustee. The Trustee is deemed to have resigned in certain circumstances, including if the Trustee becomes bankrupt or insolvent or in the event the Trustee ceases to be resident in Canada for the purposes of the Tax Act. If the Trustee resigns or is removed by Holders, its successor must be approved by Holders. If, after the resignation or removal of the Trustee, no successor has been appointed within 60 days, the Trustee or any Holder may apply to a court of competent jurisdiction for the appointment of a successor trustee.

The Trustee is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Holders and to exercise the degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances. The Declaration of Trust provides that the Trustee will not be liable in carrying out its duties under the Declaration of Trust except in cases of wilful misconduct, bad faith, negligence or the disregard of its obligations or duties or breach of its standard of care and duty. The Declaration of Trust provides that the Trustee will not be liable in any way for any default, failure or defect in any of the securities comprising the investment portfolio of the Trust if it has satisfied the duties and the standard of care, diligence and skill set forth above. The Trustee and each of its directors, officers, and employees will be indemnified by the Trust for all liabilities and expenses reasonably incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against the Trustee or any of its officers, directors or employees in the exercise of its duties under the Declaration of Trust, except those resulting from such person's wilful misconduct, bad faith, negligence, disregard of such person's obligations or duties or breach of their standard of care in relation to the matter in respect of which indemnification is claimed.

The address of the Trustee is BCE Place, 181 Bay Street, Suite 840, Toronto, Ontario M5J 2T3.

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

DECLARATION OF TRUST AND DESCRIPTION OF UNITS

General

The Trust is an investment trust created pursuant to the Declaration of Trust and governed by the laws of the Province of Ontario. The Declaration of Trust provides that the undertaking of the Trust is restricted to:

- (i) investing in, holding and selling securities for the Portfolio as described under Investment Guidelines;
- (ii) investing in, holding and selling cash equivalents and holding cash; and
- (iii) lending Portfolio securities as described under "Investment Guidelines – Securities Lending".

Units

The Trust is authorized to issue an unlimited number of redeemable, transferable Units of one class, each of which represents an equal, undivided interest in the net assets of the Trust. To become a Holder, an investor must acquire 100 or more Units in the Trust under the Offering. Fractional Units will not be issued.

Each Unit entitles a Holder to the same rights and obligations as a Holder of any other Unit and no Holder is entitled to any privilege, priority or preference in relation to any other Holder. Each Holder is entitled to one vote for each Unit held and is generally entitled to participate equally with respect to any and all distributions made by the Trust. See “Holder Matters – Meetings of Holders and Extraordinary Resolutions”. On termination, all Holders of record holding outstanding Units are entitled to receive any assets of the Trust remaining after payment of all debts, liabilities and liquidation expenses of the Trust. See “Termination of the Trust”.

The Trust does not currently intend to issue additional Units following completion of the Offering, except: (i) by way of rights offerings to existing Holders, private placement or public offering where the net proceeds per Unit to be received by the Trust are not less than the net asset value per Unit (the “NAV per Unit”), (ii) on a distribution of Units or an automatic reinvestment of distributions of net income or capital gains as discussed below, or (iii) with the approval of Holders by Extraordinary Resolution (as defined below). See “Holder Matters – Meetings of Holders and Extraordinary Resolutions”.

To enhance liquidity and to provide market support for the Units, the Trust will have a mandatory market purchase program under which the Trust will, subject to certain exceptions contained in the Declaration of Trust (as described below) and in compliance with any applicable regulatory requirements, be obligated to purchase for cancellation any Units offered in the market at the then prevailing market price if, at any time following the closing of the Offering, the price at which Units are then offered for sale is less than 90% of the NAV per Unit determined as at the close of business in Toronto, Ontario on the immediately preceding Business Day. The maximum number of Units to be purchased in any three month period (commencing with the three month period that begins on the first day of the month following the closing date of the Offering) will be 1.25% of the number of Units outstanding at the beginning of such period. The Declaration of Trust provides that the Trust will not be obligated to make such purchases if, among other things, (i) the Trust lacks the cash, debt capacity or other resources to make such purchases, or (ii) in the opinion of the Manager, such market purchases would adversely affect the ongoing activities of the Trust.

In addition, the Declaration of Trust provides that the Trust has the right (but not the obligation), exercisable in its sole discretion, at any time, to purchase for cancellation Units in the market at prices not exceeding the NAV per Unit, subject to any applicable regulatory requirements and limitations. It is expected that such purchases, if made, will be made as normal course issuer bids through the facilities and under the rules of the exchange or market on which the Units are listed, if applicable, as provided for in the Declaration of Trust or as otherwise permitted by applicable securities laws.

The Trust may, at its option, make a distribution of any net income or net realized capital gains in Units and/or in cash that will automatically be reinvested in Units. Immediately following any such distribution of Units or automatic reinvestment of cash distributions in Units, the number of Units outstanding will automatically be consolidated such that the number of Units outstanding after such distribution will be equal in number to the number of Units outstanding immediately prior to the distribution. Any such distribution, reinvestment and consolidation will increase the aggregate adjusted cost base of Units to Holders.

Book-Entry Only System

A book-entry only certificate representing Units will be issued in registered form to The Canadian Depository for Securities Limited (“CDS”), or its nominee on its behalf, on the date of the closing of the Offering. Any purchase or transfer of Units must be made through participants in the CDS depository service (“CDS Participants”), which includes securities brokers and dealers, banks and trust companies. Indirect access to the CDS book-entry only system is also available to other institutions that maintain custodial relationships with a CDS Participant, either directly or indirectly. Each purchaser of Units will receive a customer confirmation of purchase from the CDS Participant from or through whom such Units are purchased in accordance with the practices and procedures of such CDS Participant. Reference in this prospectus to a Holder means, unless the context otherwise requires, the owner of the beneficial interest in such Units.

No Holder will be entitled to a certificate or other instrument from the transfer agent for Units or CDS evidencing that person’s interest in or ownership of Units, or will be shown on the records maintained by CDS, except through an agent who is a CDS Participant. All distributions in respect of Units will be made by the Trust to CDS and distributions to CDS will be forwarded by CDS to CDS Participants, and thereafter to the Holders. See “Distributions”.

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

The Trustee has the option to terminate the book-entry only system through CDS, in which case Units in fully registered certificated form will be issued to Holders, as of the effective date of such termination.

HOLDER MATTERS

Meetings of Holders and Extraordinary Resolutions

The Trustee may, at any time, convene a meeting of the Holders and will be required to convene a meeting on receipt of a request in writing of the Holders holding 10% or more of the outstanding Units, which request must specify the purpose or purposes for which such meeting is to be called. Each Holder is entitled to one vote for each Unit held. A quorum for ordinary meetings of Holders will consist of two or more Holders present in person or by proxy and representing not less than 10% of the Units outstanding.

Certain matters shall require the approval of Holders by an extraordinary resolution (an "Extraordinary Resolution"). An Extraordinary Resolution shall be a resolution passed by Holders of not less than $66\frac{2}{3}\%$ of Units voting thereon at a meeting duly convened for the consideration of such matter. A quorum for any meeting convened to consider a matter requiring the approval of Holders by an Extraordinary Resolution shall consist of two or more Holders present in person or by proxy and representing not less than 25% of the Units then outstanding.

If a quorum is not present at a meeting within 30 minutes after the time fixed for the meeting, the meeting, if convened pursuant to a request of Holders, will be cancelled, but otherwise will be adjourned to another day, not less than ten days or more than 21 days later, selected by the Manager and notice will be given to the Holders of such adjourned meeting. The Holders present at any adjourned meeting will constitute a quorum.

The matters which require Holder approval by an Extraordinary Resolution include the removal of the Trustee, any issuance of Units subsequent to the initial issuance of Units (other than issuances made by way of rights offerings to existing Holders, private placement or public offering where the net proceeds per Unit to be received by the Trust are not less than the NAV per Unit or a distribution in Units or on the automatic reinvestment of distributions of capital gains or net income), the early termination of the Trust or continuation of the Trust beyond the Termination Date and certain matters described below under "Amendments to the Declaration of Trust".

The Manager, in respect of any Units which may be held by it from time to time, insiders of the Trust (as such expression is defined in the *Securities Act* (Ontario)), affiliates of the Manager, and any director or officer of such persons who hold Units shall not be entitled to vote on any Extraordinary Resolution to be adopted by the Holders.

Amendments to the Declaration of Trust

Except as described below, the Declaration of Trust may only be amended with the consent of Holders by an Extraordinary Resolution, including changes to the investment objectives, strategy or investment restrictions, the liability of any Holder, the right of a Holder to vote at any meeting or changing the Trust from a trust to a different form of issuer. However, no amendment can be made to the Declaration of Trust that would have the effect of reducing the interest in the Trust of Holders unless all Holders consent thereto. No amendment can be made to the Declaration of Trust which would have the effect of reducing the fees payable to the Manager unless the Manager, in its sole discretion, consents.

Notwithstanding the foregoing, the Manager is entitled, without the consent of Holders, to make certain amendments to the Declaration of Trust to make any change or correction which is of a typographical nature or is required to cure or correct a clerical omission, mistake or manifest error contained therein or which is for the purpose of amending the existing provisions or adding any provisions which are for the protection or benefit of the Holders or the Trust, for the purpose of curing an ambiguity in the Declaration of Trust, for the purpose of supplementing any provision which may be defective or inconsistent with another provision, for the purpose of compliance with applicable law, or for the purpose of conforming the Declaration of Trust with current administrative practice. Such amendments may be made only if they will not materially adversely affect the interest of any Holder. The Manager may also amend the Declaration of Trust without the consent of the Holders for the purpose of removing any conflicts or other

inconsistencies which may exist between the Declaration of Trust and applicable law, changing the Trust's taxation year-end as permitted under the Tax Act or providing the Trust with the right to acquire Units from any Holder for the purpose of maintaining the status of the Trust as a "mutual fund trust" for purposes of the Tax Act. Any amendments made by the Manager without the consent of the Holders must be disclosed in the next regularly scheduled report to Holders.

Information and Reports to Holders

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

The Trust will comply with all of the continuous disclosure requirements applicable to it as a reporting issuer under applicable securities laws. Prior to any meeting of Holders, the Trust will provide to Holders (along with notice of such meeting) all such information as is required by applicable law to be provided to Holders.

TERMINATION OF THE TRUST

The Trust will terminate on the Termination Date unless terminated earlier in accordance with the terms of the Declaration of Trust or unless Holders determine to terminate the Trust prior to the Termination Date or to continue the Trust beyond the Termination Date by an Extraordinary Resolution at a meeting called for such purpose. The Trust shall, after paying or making adequate provision for all of the Trust's liabilities, distribute the net assets of the Trust to Holders, on a *pro rata* basis, as soon as practicable after the Termination Date.

Not less than six months nor more than 12 months prior to the Termination Date, the Trustee may present a proposal to the Holders providing for a deferral of the termination of the Trust to a date that is later than the Termination Date. Such proposal may include, without limitation, a proposal: (i) to continue the Trust beyond the Termination Date; or (ii) to exchange Units for securities of one or more mutual funds or closed-end investment funds on or after the Termination Date.

In the event of the approval of the proposal referred to above, any dissenting Holder may require the Trustee to redeem all (but not less than all) of his or her Units on the Termination Date at a price per Unit equal to the NAV per Unit on the Termination Date. The termination of the Trust may not be extended beyond January 1, 2024.

DISTRIBUTIONS

Distribution Policy

In accordance with the Trust's investment objective to provide Holders with a stable stream of monthly distributions of \$0.1458 per Unit (\$1.75 per annum to yield 7.0% on the subscription price of \$25.00 per Unit) the Trust will endeavour to make monthly distributions to Holders of record on or about the last Business Day of each month (each, a "Record Date"). The Trust expects that the initial distribution will be payable to Holders of record on November 28, 2003. The Trust intends to pay distributions to Holders within 15 days after the Record Date (the "Payment Date"). **There can be no assurance that the Trust will be able to achieve its monthly distribution objective or make payments on any Payment Date.**

If, in any year after such distributions, there would otherwise remain in the Trust additional net income or net realized capital gains, the Trust intends to make, on or before December 31 of that year, a special distribution of such portion of the remaining net income and net realized capital gains as is necessary to ensure that the Trust will not be liable for income tax thereon under the Tax Act.

The amount of distributions in any particular calendar month will be determined by the Manager, having regard to the investment objectives of the Trust, the net realized capital gains and net income of the Trust, if any, during the calendar month and in the year to date, the net realized capital gains and net income of the Trust anticipated in the balance of the year and distributions made in previous months.

It is expected that monthly cash distributions over the life of the Trust will primarily be derived from net income and net realized capital gains from the Portfolio, as well as from dividends received on the Portfolio. In the event that such amounts are insufficient to fund the distribution, a portion of the distribution may constitute a return of capital.

The Trust intends that the aggregate distributions of net income and net capital gains made in each year will be sufficient to ensure that the Trust will not be liable for income tax thereon under the Tax Act, except to the extent that any tax payable on net realized capital gains of the Trust for a year that are retained by the Trust would be recoverable by it in such year.

Distributions will be payable to Holders of record at 5:00 p.m. (Toronto time) on the Record Date. Distributions will be paid to Holders proportionately based on their respective holdings of Units.

REDEMPTION OF UNITS

Units may be surrendered for redemption not more than 45 days, and at least ten Business Days, prior to the second last Business Day of December in any year (a "Valuation Date") to Computershare Trust Company of Canada (the "Transfer Agent and Registrar"). Units surrendered for redemption by a Holder at least ten Business Days prior to a Valuation Date will be redeemed as at such Valuation Date and the Holder will receive payment in respect of any Units surrendered for redemption on or before the tenth Business Day following such Valuation Date (the "Redemption Payment Date"). The NAV per Unit will vary depending on a number of factors, including distributions paid on Units, the value of the securities in the Portfolio, the performance of the convertible securities, high yield securities, income trust securities and equity markets generally, interest rates and foreign currency exposure.

Holders whose Units are redeemed on the Valuation Date in each year will be entitled to receive a redemption price per Unit (the "Unit Redemption Price") equal to the NAV per Unit determined as at such Valuation Date. Any unpaid distribution payable on or before a Valuation Date in respect of Units tendered for redemption on such Valuation Date will also be paid on the Redemption Payment Date. The Trust may designate a portion of a Holder's Unit redemption proceeds as a payment out of the Trust's net income or net realized taxable capital gains to effect an equitable allocation of such amounts among Holders.

The Manager may, without the approval of Holders (but subject to regulatory approval in respect of additional redemption rights based on a redemption price determined with reference to NAV), change the redemption rights attached to the Units on not less than 30 days' notice to registered Holders by increasing the number of times in each year that Units may be redeemed by Holders on terms specified by the Manager, provided that no such change may be made without Holder approval if it would eliminate the rights of Holders to redeem their Units on the Valuation Date in any year at a Unit Redemption Price equal to the NAV per Unit or if it would result in the Trust being a mutual fund for securities law purposes. Any redemptions based on a redemption price determined with reference to the NAV more frequently than once a year would, based on the current views of the securities regulatory authorities, make the Trust a "mutual fund" for securities law purposes (as a result of which the Trust would be subject to the investment restrictions of NI 81-102). After closing, the Trust intends to provide Holders with additional redemption rights based on the trading price of the Units.

A Holder who desires to exercise Unit redemption privileges must do so by causing a CDS Participant to deliver to CDS (at its office in the City of Toronto) on behalf of the Holder a written notice of the Holder's intention to redeem Units, no later than 5:00 p.m. (Toronto time) on the relevant notice date. A Holder who desires to redeem Units should ensure that the CDS Participant is provided with notice of his or her intention to exercise his or her redemption right sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver a notice to CDS by the required time.

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

Any redemption notice that CDS determines to be incomplete, not in proper form or not duly executed shall, for all purposes, be void and of no effect, and the redemption privilege to which it relates shall be considered, for all purposes, not to have been exercised thereby. A failure by a CDS Participant to exercise redemption privileges or to

give effect to the settlement thereof in accordance with a Holder's instructions will not give rise to any obligations or liability on the part of the Trust or the Manager to the CDS Participant or the Holder.

The Trustee may suspend the redemption of Units or payment of redemption proceeds for the whole or any part of a period during which normal trading is suspended on a stock exchange, options exchange or futures exchange or other market within or outside Canada on which convertible securities, high yield securities or income trust securities are listed and traded, or on which derivatives are traded, if those securities or derivatives represent more than 50% by value, or underlying market exposure, of the total assets of the Portfolio without allowance for liabilities and if those securities or derivatives are not traded on any other exchange or market that represents a reasonably practical alternative for the Trust, or for any period not exceeding 120 days during which the Trustee determines that conditions exist which render impractical the sale of assets of the Trust or which impair the ability of the Valuation Agent (as defined under "Valuation") to determine the value of the assets of the Trust. The suspension may, at the sole discretion of the Trustee, apply to all requests for redemption received prior to the suspension but as for which payment has not been made, as well as to all requests received while the suspension is in effect. All Holders making such requests shall be advised of the suspension and of their right to withdraw their request for redemption. Redemptions so suspended will be effected at a price determined on the first date that the NAV is calculated following the termination of the suspension. The suspension shall terminate 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 Trust, any declaration of suspension made by the Trustee shall be conclusive.

Resale of Units Tendered for Redemption

The Trust will enter into an agreement (the "Recirculation Agreement") with TD Securities Inc. (the "Recirculation Agent") whereby the Recirculation Agent will agree to use commercially reasonable efforts to find purchasers for any Units tendered for redemption prior to the relevant Redemption Payment Date, provided that the Holder of Units so tendered has not withheld consent thereto. The Trust may, but is not obligated to, require the Recirculation Agent to seek such purchasers. In such event, the amount to be paid to the Holder on the Redemption Payment Date will be an amount equal to the proceeds of the sale of Units less any applicable fees and commissions. Such amount will not be less than the Unit Redemption Price described above. Holders are free to withhold their consent to any proposed resale and to require the Trust to redeem their Units in accordance with their terms.

Any and all Units which have been surrendered to the Trust for redemption will be deemed to be outstanding until (but not after) the close of business on the relevant Valuation Date, unless not redeemed thereon, in which event such Units will remain outstanding.

Purchase for Cancellation

Subject to applicable law and regulatory requirements, the Trust will have a mandatory market purchase program and may, at any time and from time to time, purchase Units for cancellation at prices not exceeding the NAV per Unit on the NAV Valuation Date (as defined under "Valuation – Valuation of Assets") immediately prior to such purchase. See "Declaration of Trust and Description of Units – Units".

VALUATION

Valuation of Assets

State Street Fund Services Toronto Inc. (the "Valuation Agent") will, on each Business Day (a "NAV Valuation Date"), calculate the value of the Trust's assets as set forth below.

The Investment Advisor will notify the Valuation Agent of any adjustments in the investments in the Portfolio and of any circumstances which would necessitate an adjustment from a valuation previously provided to it by the Valuation Agent. The Manager will review and, if satisfactory, approve the valuation daily and will, from time to time, consider the appropriateness of the valuation policies adopted by the Trust, as such policies are modified from time to time in the discretion of the Manager, acting reasonably, and in the best interests of Holders.

Net Asset Value

The NAV will be calculated by the Valuation Agent on each NAV Valuation Date by subtracting the aggregate amount of the liabilities of the Trust from the total assets of the Trust. The total assets of the Trust will be valued as follows:

- (a) the value of any security which is listed or traded upon a stock exchange shall be determined by taking the official closing price from the relevant stock exchange, or if there is no official closing price, the latest available sale price of recent date, or lacking any recent sales or any record thereof, the simple average of the latest available offer price and the latest available bid price (unless, in the opinion of the Valuation Agent, such value does not reflect the value thereof and in which case the latest offer price or bid price should be used), as at the NAV Valuation Date on which the NAV is being determined, all as reported by any means in common use;
- (b) the value of any cash on hand or on deposit, prepaid expenses, cash dividends received (or declared to Holders of record on a date before the NAV Valuation Date as of which the NAV is being determined and to be received) and interest accrued and not yet received, shall be deemed to be the face amount thereof unless the Valuation Agent has determined that any such asset is not otherwise worth the face amount thereof, in which case the value thereof shall be deemed to be such value as the Valuation Agent determines to be the fair value thereof;
- (c) the value of a forward contract shall be the gain or loss with respect thereto that would be realized if, on the NAV Valuation Date, the position in the forward contract were to be closed out in accordance with its terms;
- (d) the value of any bonds, debentures and other debt obligations will be valued by taking the average of the bid and ask prices on the NAV Valuation Date at such times as the Valuation Agent, in its discretion, deems appropriate. Amounts drawn under any Loan Facility will be valued at par. Short-term investments, including notes and money market instruments, will be valued at cost plus accrued interest;
- (e) if a NAV Valuation Date is not a Business Day, then the securities and other property will be valued as if such NAV Valuation Date was the preceding Business Day;
- (f) if an investment cannot be valued under the foregoing rules or if the foregoing rules are at any time considered by the Valuation Agent to be inappropriate under the circumstances, then notwithstanding the foregoing rules, the Valuation Agent shall make such valuation as it considers fair and reasonable; and
- (g) the value of all assets quoted or valued in terms of foreign currency, the value of all funds on deposit and contractual obligations payable to the Trust in foreign currency and the value of all liabilities and contractual obligations payable by the Trust in foreign currency shall be determined using the applicable rate of exchange current at, or as nearly as practicable to, the date on which the NAV is computed.

The NAV per Unit is the amount obtained by dividing the NAV as of a particular date by the total number of Units outstanding on that date. The NAV per Unit will be calculated on a daily basis by the Valuation Agent on instruction from the Manager, shall be reviewed and, if satisfactory, approved by the Manager. Such information will be provided by the Manager to Holders on request by calling toll-free 1-877-711-2440 or through the Internet at www.skyloncapital.com.

The process of valuing investments for which no published market exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments and may differ from the prices at which the investments may be sold.

In discharging its valuation duties, the Valuation Agent shall be entitled to rely on reports prepared by or for the Manager.

Audit of Financial Statements

The annual financial statements of the Trust shall be audited by the Trust's auditors in accordance with generally accepted auditing standards. The auditors will be asked to report on the fair presentation of the annual financial statements in accordance with generally accepted accounting principles.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of McMillan Binch LLP, counsel to the Trust, and Osler, Hoskin & Harcourt 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 Units by a Holder who acquires Units pursuant to this prospectus. This summary is applicable to a Holder who is an individual (other than a trust) and who, for the purposes of the Tax Act, is resident in Canada, deals at arm's length with the Trust and holds Units as capital property. 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 Trust or of any Holder 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 a "participating interest" in a "tracking entity" or a "foreign investment entity" (other than an "exempt interest") under the draft legislation released October 11, 2002 (or such proposals as amended or enacted, or successor provisions thereto).

This summary is based on the current provisions of the Tax Act and the regulations thereunder, counsel's understanding of the current published administrative and assessing practices of the Canada Customs and Revenue Agency (the "CCRA") and all specific proposals to amend the Tax Act and regulations thereunder publicly announced by the Minister of Finance (Canada) prior to the date hereof (such proposals referred to hereafter as the "Tax Proposals"). 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 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 not exhaustive of all possible Canadian federal tax considerations applicable to an investment in Units and does not describe the income tax considerations relating to the deductibility of interest on money borrowed to acquire Units. Moreover, the income and other tax consequences of acquiring, holding or disposing of Units will vary depending on the investor's particular circumstances including the province or provinces 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 Units, based on their particular circumstances.

Status of the Trust

This summary is based on the assumptions that the Trust will qualify at all times as a "mutual fund trust" within the meaning of the Tax Act, that the Trust will elect under the Tax Act to be a mutual fund trust from the date it was established, and that the Trust has not been established and will not be maintained primarily for the benefit of non-residents.

To qualify as a mutual fund trust (i) the Trust must be a Canadian resident "unit trust" for purposes of the Tax Act, (ii) the only undertaking of the Trust must be (a) the investing of its funds in property (other than real property or interests in real property), (b) the acquiring, holding, maintaining, improving, leasing or managing of any real property (or interest in real property) that is capital property of the Trust, or (c) any combination of the activities described in (a) and (b), and (iii) the Trust must comply with certain minimum requirements respecting the ownership and dispersal of Units (the "minimum requirements"). In this connection, (i) the Manager intends to cause the Trust to qualify as a unit trust throughout the life of the Trust, (ii) the Trust's undertaking conforms with the restrictions for mutual fund trusts, and (iii) the Manager and the Agents have advised counsel that they have no reason to believe at the date hereof that the Trust will not comply with the minimum requirements at all material times.

If the Trust were not to qualify as a mutual fund trust, the income tax considerations as described below and under "Eligibility for Investment" would in some respects be materially different.

Taxation of the Trust

The Trust 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 Holders in the year. The Trust intends to deduct, in computing its income in each taxation year, the full amount available for deduction in each year and, therefore, provided the Trust makes distributions in each year of its net income and net realized capital gains as described under “Distributions”, it will generally not be liable in such year for income tax under Part I of the Tax Act.

Provided the Trust elects in accordance with the Tax Act to have each of its Canadian securities treated as capital property, gains or losses realized by the Trust on the sale of Canadian securities will be taxed as capital gains or capital losses.

With respect to an issuer included in the Portfolio that is a trust, the Trust will be 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 Trust 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 Trust and are designated by the issuer in respect of the Trust will effectively retain their character as such in the hands of the Trust.

The Trust will also be required to include in its income any amount designated in respect of the Trust under subsection 104(29) of the Tax Act by a trust relating to certain Crown royalties and charges in excess of the resource allowance deductible in computing the trust’s income. The Tax Proposals will permit the Trust to designate an amount in respect of such designated amount to Holders with the result that the Trust will be entitled to deduct the amount it designates in computing its income and Holders will be required to include their share of such amount in their income.

The Trust will generally be required to reduce the adjusted cost base of the units of such issuer to the extent that all amounts paid or payable in a year by the issuer to the Trust exceed the amounts included in the income of the Trust for the year plus the Trust’s share of the non-taxable portion of capital gains of such issuer for the year. To the extent that the adjusted cost base to the Trust of the unit of such an issuer would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Trust and the Trust’s adjusted cost base of such unit will be increased by the amount of such deemed capital gain.

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

The Trust will also be required to include in its income for each taxation year, all interest that accrues to it to the end of the year, or becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing its income for a preceding taxation year. Where the Trust transfers a debt security to a transferee who becomes entitled to interest that accrued on the security prior to the transfer, such amount will generally be included as interest in computing the Trust’s income.

In computing its income for tax purposes, the Trust may deduct reasonable administrative and other expenses incurred to earn income, generally including interest payable by the Trust on borrowed funds used to purchase securities to be included in the Portfolio. The Trust may deduct the costs and expenses of this Offering paid by the Trust and not reimbursed at a rate of 20% per year, pro-rated where the Trust’s taxation year is less than 365 days.

Upon the actual or deemed disposition of a security included in the Portfolio, the Trust will realize a capital gain (or capital loss) to the extent that the proceeds of disposition, net of 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 provided such security is capital property to the Trust. The Manager has advised counsel that the Trust intends to make an election under subsection 39(4) of the Tax Act so that all securities included in the Portfolio that are Canadian securities (as defined in the Tax Act) will be deemed to be capital property to the Trust.

The Portfolio will include securities which are not denominated in Canadian dollars. The cost and proceeds of disposition of securities, dividends, interest and all other amounts will be determined for the purposes of the Act in Canadian dollars at the exchange rate prevailing at the time of the transaction. The amount of income, gains and losses realized by the Trust may be affected by fluctuations in the value of foreign currencies relative to the Canadian dollar.

The Trust is expected to 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 Trust exceeds 15% of the amount included in the Trust's income from such investments, such excess may generally be deducted by the Trust in computing its net income for the purposes of the Act. To the extent that such foreign tax paid does not exceed 15% of such amount and has not been deducted in computing the Trust's income, the Trust may designate a portion of its foreign source income in respect of a Holder so that such income and a portion of the foreign tax paid by the Trust may be regarded as foreign source income of, and foreign tax paid by, the Holder for the purposes of the foreign tax credit provisions of the Act.

The Tax Act provides for a special tax on designated income of certain trusts which have designated beneficiaries. This special tax does not apply to a trust for a taxation year if the trust is a mutual fund trust throughout such year. Accordingly, provided that the Trust qualifies as a mutual fund trust throughout a taxation year, it will not be subject to the special tax for such taxation year.

Taxation of Holders

A Holder will generally be required to include in computing income for a taxation year the amount of the Trust's net income for the taxation year, including net realized taxable capital gains, paid or payable to the Holder in the taxation year. The non-taxable portion of the Trust's net realized capital gains paid or payable (whether in cash or in Units) to a Holder in a taxation year will not be included in the Holder's income for the year. Any other amount in excess of the Trust's net income for a taxation year paid or payable to the Holder in the year will not generally be included in the Holder's income. Such amount, however, will generally reduce the adjusted cost base of the Holder's Units, except to the extent such amount is the non-taxable portion of a capital gain of the Trust the taxable portion of which was designated to the Holder. To the extent that the adjusted cost base of a Unit would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Holder from the disposition of the Unit and the Holder's adjusted cost base will be increased by the amount of such deemed capital gains.

Provided that appropriate designations are made by the Trust, such portion of (i) the net realized taxable capital gains of the Trust, (ii) the foreign source income of the Trust and foreign taxes eligible for the foreign tax credit, and (iii) the taxable dividends received by the Trust on shares of taxable Canadian corporations, as is paid or payable to a Holder will effectively retain its character and be treated as such in the hands of the Holder for purposes of the Tax Act. To the extent that amounts are designated as taxable dividends from taxable Canadian corporations, the normal gross-up and dividend tax credit rules will apply. The Trust may designate a portion of a Holder's Unit redemption proceeds as a payment out of the Trust's net income or net realized taxable capital gains to effect an equitable allocation of such amounts among Holders.

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

The NAV per Unit will reflect any income and gains of the Trust that have accrued at the time Units are acquired. Accordingly, a Holder who acquires Units may become taxable on the Holder's share of income and gains of the Trust that accrued before the Units were acquired notwithstanding that such amounts will have been reflected in the price paid by the Holder for the Units.

On the disposition or deemed disposition of a Unit, the Holder will realize a capital gain (or capital loss) to the extent that the Holder's proceeds of disposition (other than any amount payable by the Trust which represents an amount that is otherwise required to be included in the Holder's income as described above) exceed (or are less than) the aggregate of the adjusted cost base of the Unit and any reasonable costs of disposition. If the Trust distributes property *in specie* on the termination of the Trust, a Holder's proceeds of disposition would 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 Trust on the disposition. For the purpose of determining the adjusted cost base of Units to a Holder, when Units are acquired, the cost of the newly acquired Units will be averaged with the adjusted cost base of all Units owned by the Holder as capital property immediately before that time. For this purpose the cost of Units that have been issued as a distribution or on the automatic reinvestment of a net income or capital gains distribution (as contemplated under "Declaration of Trust and Description of Units – Units") will generally be equal to the amount of such distribution.

One-half of any capital gain ("taxable capital gain") realized on the disposition of Units will be included in the Holder's income and one-half of any capital loss ("allowable capital loss") realized may be deducted from taxable capital gains in accordance with the provisions of the Tax Act.

In general terms, net income of the Trust paid or payable to a Holder that is designated as net realized taxable capital gains or taxable capital gains realized on the disposition of Units may increase the Holder's liability for alternative minimum tax.

ELIGIBILITY FOR INVESTMENT

In the opinion of McMillan Binch LLP, counsel to the Trust, and Osler, Hoskin & Harcourt LLP, counsel to the Agents, provided that the Trust qualifies as a "mutual fund trust" for the purposes of the Tax Act, Units offered hereby will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans. It is anticipated that Units will constitute "foreign property" for purposes of the tax imposed under Part XI of the Tax Act.

USE OF PROCEEDS

The Trust intends to use the total proceeds from the sale of Units as follows:

	<u>Maximum Offering</u>	<u>Minimum Offering</u>
Gross proceeds to the Trust	\$150,000,000	\$25,000,000
Agents' fee	\$7,875,000	\$1,312,500
Expenses of issue	\$700,000	\$700,000
Net proceeds to the Trust	\$141,425,000	\$22,987,500

The Trust will use the net proceeds of the Offering (including any net proceeds from the exercise of the Over-Allotment Option (as defined under "Plan of Distribution")) to invest in the Portfolio and fund the ongoing fees and expenses of the Trust as described herein.

PLAN OF DISTRIBUTION

Pursuant to an agency agreement (the "Agency Agreement") among TD Securities Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., National Bank Financial Inc., Scotia Capital Inc., Canaccord Capital Corporation ("Canaccord"), HSBC Securities (Canada) Inc., Raymond James Ltd., Dundee Securities Corporation, Desjardins Securities Inc., Bieber Securities Inc., First Associates Investments Inc. and Wellington West Capital Inc. (the "Agents"), the Trustee, in its capacity as trustee and in its own capacity and Skylon Capital, the Agents have agreed to offer Units for sale as agents of the Trust, on a best efforts basis, if, as and when issued by the Trust, in accordance with the terms and conditions of the Agency Agreement. Units will be offered at a price of \$25.00 per Unit. The Agents will receive a fee equal to \$1.3125 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 Units offered hereby, the Agents will not be obligated to purchase Units which are not sold.

The Trust has granted the Agents an option (the "Over-Allotment Option") to offer up to 900,000 additional Units, which Units are qualified for sale hereunder. The Agents may exercise the Over-Allotment Option in whole or in part at any time on or before the close of business on the 30th day following the date of closing of the Offering. To the extent the Over-Allotment Option is exercised, the additional Units will be offered by the Agents at the Offering price hereunder and the Agents will be entitled to receive a fee of \$1.3125 in respect of each Unit sold.

The Toronto Stock Exchange has conditionally approved the listing of the Units, subject to fulfillment by the Trust of the requirements of such exchange on or before January 13, 2004, including distribution to a minimum number of Holders.

Proceeds from subscriptions will be held by the Agents in trust in a segregated account until the closing of the Offering. If subscriptions for a minimum of 1,000,000 Units have not been received within 90 days following the date of issuance of a receipt for this prospectus, the Offering may not continue without the consent of the Canadian securities regulators 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.

In the event the minimum Offering is not achieved and the necessary consents are not obtained or the closing of the Offering does not occur for any reason, subscription proceeds received from prospective purchasers will be returned to such purchasers promptly without interest or deduction. Subscriptions for Units will be received subject to rejection or allotment in whole or in part. In the event that a subscription is rejected, all monies received with the subscription will be refunded immediately. The right is reserved to close the subscription books at any time without notice. The closing of the Offering will take place on or about October 17, 2003 or such later date as may be agreed on by the Trustee and the Agents that is on or before December 16, 2003.

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, 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 or on behalf of a customer where the order was not solicited during the period of distribution. Pursuant to the first mentioned exception, in connection with the Offering, the Agents may over-allot or effect transactions. Such transactions, if commenced, may be discontinued at any time.

The Investment Advisor is an affiliate of The Manufacturers Life Insurance Company, which owns Class C common shares and certain convertible debentures of Canaccord Holdings Ltd., which represents more than 20% of the outstanding voting and equity securities of Canaccord Holdings Ltd. on a fully diluted basis. Canaccord, one of the agents, is a wholly-owned subsidiary of Canaccord Holdings Ltd. As such, Canaccord may be considered to be a "connected issuer" of the Trust under Canadian securities legislation by virtue of the investment sub-advisory relationship between the Trust's Manager and the Investment Advisor.

FEES AND EXPENSES

Initial Fees and Expenses

The expenses of the Offering (including the costs of creating and organizing the Trust, the costs of printing and preparing the prospectus, legal expenses, marketing and advertising expenses and other reasonable out-of-pocket expenses) including those incurred by the Agents and other incidental expenses, which are estimated to be \$700,000 in the aggregate, will be paid out of the gross proceeds of the Offering. In addition, the Agents' fee will be paid to the Agents from the gross proceeds as described under "Plan of Distribution".

Management Fees

The Manager has coordinated the organization of the Trust, will work with the Agents in developing and implementing all aspects of the Trust's communications, marketing and distribution strategies and will manage the ongoing business and administrative affairs of the Trust. As compensation for management services rendered to the Trust, the Manager is entitled to receive an annual management fee in an amount equal to 1.10% of the NAV calculated

and payable monthly in arrears plus applicable taxes and is responsible for payment of the investment management fees of the Investment Advisor out of its annual management fees.

Ongoing Expenses

The Trust will pay for all expenses incurred in connection with its operation and administration. It is expected that these expenses have included or will include, without limitation: mailing and printing expenses for periodic reports to Holders; fees payable to the Trustee for acting as trustee of the Trust; fees payable to the Valuation Agent for valuation services; fees payable to the Custodian (as defined below) for custodial services; fees payable to the Transfer Agent and Registrar for performing certain financial, record-keeping, reporting and general administrative services; fees payable to the auditors and legal advisors; ongoing regulatory filing fees and other fees; any reasonable out-of-pocket expenses incurred by the Trustee or its agents in connection with their ongoing obligations to the Trust; any taxes payable by the Trust or to which the Trust may be subject; interest expenses; expenses relating to portfolio transactions; and any expenditures which may be incurred upon the termination of the Trust. The Manager estimates that administration and operating costs for the Trust will be approximately \$250,000 per annum (assuming an offering size of approximately \$100 million). The Trust will also be responsible for its other costs of portfolio transactions and any extraordinary expenses which may be incurred from time to time.

Service Fee

The Trust will pay to registered dealers an annual Service Fee equal to 0.40% of the NAV per Unit for Units held by clients of the sales representatives of the registered dealers calculated and payable semi-annually in arrears.

INTEREST OF MANAGEMENT IN MATERIAL TRANSACTIONS

The Manager is a wholly-owned subsidiary of Skylon Capital, and both the Manager and Skylon Capital are the promoters of the Trust. Some directors and officers of Skylon Capital are also directors and/or officers of the Manager. See “Management of the Trust”.

RISK FACTORS

There are certain risks associated with an investment in Units. Investors should consider the following risk factors before subscribing for Units:

No Assurance of Achieving Investment Objectives and No Guaranteed Rate of Return

There is no assurance that the Trust will be able to achieve its monthly distribution objective or its objective to endeavour to preserve and enhance the NAV in order to return at least the original subscription price of the Units to Holders on or about the Termination Date.

There is no guarantee that the Portfolio will earn any return and the Portfolio could be subject to losses. An investment in the Trust is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment and who can withstand the effect of the target return not being met in any period.

Fluctuations in Net Asset Value

The NAV and the funds available for distribution will vary according to, among other things, distributions paid on the Units, the value of the securities in the Portfolio, the performance of the convertible securities, high yield securities, income trust securities and equity markets generally, interest rates and foreign currency exposure. Securities held in the convertible securities component of the Portfolio may also be particularly affected by equity markets in general if the underlying securities are common shares. Fluctuations in the market values of the investments in the Portfolio may occur for a number of reasons beyond the control of the Investment Advisor. See “Valuation”.

Units may trade in the market at a premium or discount to the NAV per Unit and there can be no assurance that Units will trade at a price equal to the NAV per Unit.

High Yield Debt Securities

The Portfolio will hold investments in debt securities which involve risks of default on interest and principal and price changes due to such factors as general economic conditions and the issuer's credit worthiness. The Portfolio may include high yield instruments, which typically entail greater potential price volatility and may be less liquid than higher rated instruments. High yield debt securities may be regarded as predominately speculative with respect to the issuer's continuing ability to meet principal and interest payments. They may also be more susceptible to real or perceived adverse economic and competitive industry conditions than higher rated securities. Analysis of the creditworthiness of issuers of high yield debt securities may be more complex than for issuers of higher quality debt obligations. Unrated securities may be less liquid than comparable rated securities and involve the risk that the Investment Advisor may not accurately evaluate the securities' comparative credit rating. The secondary market on which high yield debt securities are traded may be less liquid than the market for investment grade securities. During periods of thin trading in these markets, the spread between bid and ask prices is likely to increase significantly and there may be greater difficulty in selling the securities in the Portfolio.

Income Trusts

The yields on income trusts are not assured. Income trusts depend ultimately on the financial performance of the related operating company and may also be subject to general risks associated with industry, business cycles, commodity prices, interest rates and other economic factors. Some of the income trusts in the Portfolio will have limited operating histories. There is a risk that the rules in the Tax Act may change, which could negatively affect the yields of income trust securities in the Portfolio. Unitholders of income trusts do not receive the protection of statutorily mandated limited liability, as in the case of shareholders of most Canadian corporations, and thus there is no guarantee that unitholders, such as the Trust, could not be made party to legal action in connection with the income trust.

Real Estate Investment Trusts

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

Securities Lending

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

Leverage

One element of the Trust's investment strategy is the utilization of borrowings under the Loan Facility or the employment of other forms of leverage to make investments in additional instruments. The obligations under the Loan Facility or other forms of leverage may be secured by the assets of the Portfolio. By adding additional leverage, these strategies have the potential to enhance returns but also involve additional risks. There can be no assurance that the leveraging strategy employed by the Trust will enhance returns. The use of leverage may reduce returns (both distributions and capital) to Holders. If the instruments in the Portfolio suffer a substantial decrease in value, the leverage component will cause a decrease in the NAV in excess of that which would otherwise be experienced. In addition, if the aggregate amount of borrowings under the Loan Facility and other forms of leverage exceed at any time 25% of the greater of: (i) the initial net asset value and (ii) the net asset value at the time the borrowing or other transaction is entered into, of the Units then outstanding as a result of redemptions or other decrease in the number of

Units, the Trust will be required to sell investments or enter into other transactions in order to reduce the aggregate amount of borrowings or other leverage to such 25% level. Such transactions may be required to be effected at prices or on terms which may adversely affect the value of the Portfolio. However, the Trust will not be required to reduce borrowings or other leverage as a result of decreases in the value of the Units occurring otherwise than as a result of redemptions or other decreases in the number of Units outstanding. If the NAV decreases otherwise than as a result of a decrease in the number of Units outstanding, the percentage of leverage in the Portfolio may constitute more than 25% of the value of the outstanding Units from time to time.

The interest expense and banking fees incurred in respect of a Loan Facility, or expenses and fees incurred in respect of other forms of leverage, may exceed the incremental capital gains/losses and income generated by the incremental investments for the Portfolio. In addition, the Trust may not be able to renew a Loan Facility or other form of leverage on acceptable terms. It is expected that the Trust may utilize the maximum amount of leverage permitted by the investment restrictions described under “Investment Guidelines”.

Operating History and Marketability of Units

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

Reliance on Investment Advisor, Manager and Key Personnel

Performance of the investments in the Portfolio will be dependent on the Investment Advisor, which provides investment advisory and portfolio management services with respect to the Portfolio pursuant to the Investment Advisory Agreement, and the Manager as manager of the Trust. Mr. Carr and Mr. Wicks, portfolio managers of the Investment Advisor, are principally responsible for providing investment advisory and portfolio management services. In the event that all or substantially all of the portfolio managers of the Investment Advisor, including Mr. Carr and Mr. Wicks, cease to be employed by the Investment Advisor, or if the Investment Advisor ceases to be the investment sub-advisor, the performance of the Portfolio may be adversely affected.

Foreign Currency Exposure

Certain of the investments in the Portfolio, at any time, will consist of securities denominated in currencies other than the Canadian dollar and, accordingly, the NAV will, when measured in Canadian dollars, be affected by fluctuations in the value of such currencies relative to the Canadian dollar. However, the Investment Advisor intends to hedge at least 90% of the Portfolio back to the Canadian dollar at all times.

Foreign Market Exposure

The Portfolio may, 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.

Interest Rate Changes and Sensitivity of Market Price of Units to Interest Rates

Interest rate risk is the risk that debt obligations will decline in value because of changes in interest rates. Generally, debt securities will decrease in value when interest rates rise and increase in value when interest rates decline. NAV will fluctuate with interest rate changes and the corresponding changes in the value of the investments in the Portfolio.

As the Trust intends to provide Holders with a stable stream of monthly distributions of \$0.1458 per Unit (\$1.75 per annum to yield 7.0% per annum on the original subscription price of the Units (\$25.00 per Unit)), the market price of Units may be affected by the level of interest rates prevailing from time to time.

Illiquid Securities

If the Investment Advisor is unable to dispose of some or all of the investments in the Portfolio prior to the Termination Date, the Trust may experience a delay in making payments to Holders on the Termination Date until such time as the Investment Advisor is able to dispose of such Portfolio securities. If the Investment Advisor determines that it is appropriate to acquire certain securities for the Trust, the Investment Advisor may be unable to acquire the desired number of such securities, or to acquire such securities at a price acceptable to the Investment Advisor, if the market for such securities is particularly illiquid.

Derivatives Risk

The Trust may use derivatives for any purpose including, among other things, as a substitute for taking a position in the underlying asset or as part of a strategy designed to reduce or increase exposure to other risks, such as interest rate or currency risk. The use of derivative instruments involves risks different from and possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives are subject to a number of risks, such as liquidity risk, interest rate risk, market risk, credit risk, leveraging risk, counterparty risk, trading execution risk and short selling risk. Short selling of securities will expose the Portfolio to losses if the value of the securities sold short increases, because the Trust may be required to purchase such securities at a higher price in order to cover its short position than the price at which such securities were sold short. Derivatives also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index. When the Trust invests in a derivative instrument, it could lose more than the principal amount invested.

Conflicts of Interest

The Manager, the Investment Advisor, their respective directors and officers and their respective affiliates and associates may engage in the promotion, management or investment management of any other account, fund or trust which invests primarily in securities to be held in the Portfolio.

Although none of the directors or officers of the Manager will devote his or her full time to the business and affairs of the Trust or the Manager, each will devote as much time as is necessary to supervise the management of (in the case of the directors) or to manage (in the case of officers) the business and affairs of the Trust and the Manager. Although officers, directors and professional staff of the Investment Advisor will devote as much time to the Trust as the Investment Advisor deems appropriate to perform its duties in accordance with the Investment Advisory Agreement, the staff of the Investment Advisor may have conflicts in allocating its time and services among the Portfolio and the other portfolios of the Investment Advisor.

Status of the Trust for Securities Law Purposes

The Trust is not a “mutual fund” for securities law purposes. As a result, some of the protections provided to investors in mutual funds under such laws will not be available to investors in the Units and restrictions imposed on mutual funds under Canadian securities laws, including NI 81-102, do not apply to the Trust. See “Investment Guidelines - Investment Restrictions”.

Changes in Legislation

There can be no assurance that income tax, securities, and other laws or the interpretation and application of such laws by courts or government authorities will not be changed in a manner which adversely affects the distributions received by the Trust or the Holders.

Interest Deductions

The CCRA has expressed a view that the amount of interest on money borrowed and used to invest in units of an income fund may not be fully deductible in certain circumstances based on the composition of a portfolio. Counsel to

the Trust and the Agents are of the view that, while the ability to deduct interest will always be a question of fact, based on the jurisprudence, the CCRA's position should not impact on the Trust's ability to deduct interest on money borrowed to acquire income trust securities. If the CCRA's position were to prevail and apply to the Trust based upon its facts, part of the interest payable by the Trust in connection with money borrowed to acquire income trust securities could be non-deductible, increasing the net income of the Trust for tax purposes. Income of the Trust which is not distributed and thus included in the income of Holders would be subject to non-refundable income tax in the Trust.

Legal and Statutory Rights

Although the Custodian (as defined below) of the Portfolio is in Canada and some of the assets of the Trust may be held in Canada, the majority of the Trust's assets may be held in accounts with sub-custodians in other jurisdictions. Accordingly, there may be additional defences available to any judgement obtained by the Trust in Canada which may affect enforcement in any such jurisdictions.

Liability of Holders

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

The Declaration of Trust provides that the Trustee shall use reasonable means to cause the Trust's operations to be conducted in such a way as to minimize any such risk and, in particular, where feasible, to cause every written contract or commitment of the Trust to contain an express disavowal of liability of Holders.

In any event, it is considered that the risk of any personal liability of Holders is minimal in view of the anticipated equity of the Trust, and the nature of its activities. In the event that a Holder should be required to satisfy any obligation of the Trust, such Holder will be entitled to reimbursement from any available assets of the Trust.

MATERIAL CONTRACTS

Material contracts that have been, or will be, entered into by the Trust since its formation or prior to closing, other than contracts entered into in the ordinary course of business, are as follows:

- (a) the Declaration of Trust made by the Trustee referred to under "Declaration of Trust and Description of Units" and "The Trustee";
- (b) the Agency Agreement made between the Trustee as trustee of the Trust and in its own capacity, Skylon Capital and the Agents referred to under "Plan of Distribution";
- (c) the custodial agreement made between the Trustee as trustee of the Trust and State Street Trust Company Canada referred to under "Auditors, Valuation Agent, Transfer Agent, Registrar and Custodian";
- (d) the registrar, transfer agency and distribution agency agreement made between the Trustee as trustee of the Trust and Computershare Trust Company of Canada referred to under "Auditors, Valuation Agent, Transfer Agent, Registrar and Custodian"; and
- (e) the valuation services agreement made between the Trustee as trustee of the Trust and State Street Fund Services Toronto Inc. referred to under "Auditors, Valuation Agent, Transfer Agent, Registrar and Custodian".

Copies of the contracts referred to above may be inspected during normal business hours at the offices of the Manager at BCE Place, 181 Bay Street, Suite 840, Toronto, Ontario M5J 2T3 throughout the Offering period.

PROMOTERS

Skylon Capital and the Manager may be considered promoters of the Trust by reason of their initiative in forming and establishing the Trust and taking the steps necessary for the public distribution of Units. The promoters will not receive any benefits, directly or indirectly, from the issuance of Units offered hereunder other than as described under “Fees and Expenses”.

LEGAL MATTERS

Legal matters in connection with the Offering will be passed upon on behalf of the Trust and the Manager by McMillan Binch LLP and on behalf of the Agents by Osler, Hoskin & Harcourt LLP.

AUDITORS, VALUATION AGENT, TRANSFER AGENT, REGISTRAR AND CUSTODIAN

The auditors of the Trust are Ernst & Young LLP, 222 Bay Street, Toronto, Ontario M5K 1J7.

The Trustee will act as trustee of the Trust pursuant to the Declaration of Trust. Computershare Trust Company of Canada will act as Transfer Agent and Registrar for the Trust at its principal office in Toronto. In addition to performing registrar and transfer agency services, the Transfer Agent and Registrar will provide certain record-keeping, Holder reporting and general administration services pursuant to the registrar, transfer agency and distribution agency agreement to be dated as of the date of the closing of the Offering.

State Street Trust Company Canada will serve as custodian (the “Custodian”) of the Trust pursuant to an agreement to be dated as of the closing of the Offering. State Street Fund Services Toronto Inc., as valuation agent, will perform certain valuation services for the Trust pursuant to a valuation services agreement.

PURCHASERS’ STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two Business Days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, 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 such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province for the particulars of these rights or consult with a legal advisor.

AUDITORS' REPORT

To the Trustee of
CONVERTIBLE & YIELD ADVANTAGE TRUST:

We have audited the statement of financial position of Convertible & Yield Advantage Trust as at September 24, 2003. This financial statement is the responsibility of the Trust'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 Trust as at September 24, 2003 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
September 24, 2003

(Signed) ERNST & YOUNG LLP
Chartered Accountants

COMPILATION REPORT

To the Trustee of
CONVERTIBLE & YIELD ADVANTAGE TRUST:

We have reviewed, as to compilation only, the accompanying *pro forma* statement of financial position of Convertible & Yield Advantage Trust as at September 24, 2003 which has been prepared for inclusion in the prospectus relating to the issue of Units of the Trust. In our opinion, the *pro forma* statement of financial position has been properly compiled to give effect to the transactions and assumptions described in Note 4 thereto.

Toronto, Canada
September 24, 2003

(Signed) ERNST & YOUNG LLP
Chartered Accountants

**CONVERTIBLE & YIELD ADVANTAGE TRUST
STATEMENT OF FINANCIAL POSITION**

September 24, 2003

	Actual	Pro Forma
		(unaudited) (Note 4)
ASSETS		
Cash	\$25	—
Investment in portfolio securities	—	\$22,987,500
Total	\$25	\$22,987,500
HOLDERS' EQUITY		
Holders' equity (Notes 1 and 4):		
Units (actual 1 Unit; <i>pro forma</i> 1,000,000 Units, net of issue costs)	\$25	\$22,987,500

Approved by the Trustee:

(Signed) GORDON A. MCMILLAN
Director

(Signed) COLIN S. MERCIER
Director

Notes:

1. Units Authorized and Outstanding

Establishment of the Trust and Authorized Units

Convertible & Yield Advantage Trust (the "Trust") was established under the laws of the Province of Ontario on September 24, 2003 by a declaration of trust (the "Declaration of Trust") made by Skylon Advisors Inc. (the "Manager") as trustee of the Trust. The Trust is authorized to issue an unlimited number of Units. On September 24, 2003 the Trust issued 1 Unit for \$25.00 cash.

2. Agency Agreement and Custodian

The Trust has engaged TD Securities Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., National Bank Financial Inc., Scotia Capital Inc., Canaccord Capital Corporation, HSBC Securities (Canada) Inc., Raymond James Ltd., Dundee Securities Corporation, Desjardins Securities Inc., Bieber Securities Inc., First Associates Investments Inc. and Wellington West Capital Inc. (the "Agents") to offer for sale to the public pursuant to a prospectus dated September 24, 2003 Units (the "Offering") described in Note 4.

Pursuant to a custodial agreement, the Trust will retain State Street Trust Company Canada to act as custodian of the assets of the Trust.

3. Commitments

As compensation for management services rendered to the Trust pursuant to the Declaration of Trust, the Manager is entitled to receive an annual management fee in an amount equal to 1.10% of the net asset value of the Trust calculated and payable monthly in arrears plus applicable taxes and an amount equal to the service fee (the "Service Fee") payable to registered dealers. The Manager will pay to registered dealers an annual Service

Fee equal to 0.40% of the net asset value per Unit for Units held by clients of the sales representatives of the registered dealers calculated and payable semi-annually in arrears.

4. Pro Forma Statement of Financial Position (Unaudited)

The *pro forma* statement of financial position gives effect, as at September 24, 2003, to the following transactions:

- (a) The issue of 1,000,000 Units for total gross proceeds of \$25,000,000.
- (b) The payment of estimated costs relating to the Offering of \$2,012,500, which amount is comprised of the fee payable to the Agents in the Offering of \$1,312,500 and issue costs of \$700,000.
- (c) The completion of the purchase of an investment portfolio at a cost of \$22,987,500.

CERTIFICATE OF THE TRUSTEE

Dated: September 24, 2003

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 9 of the *Securities Act* (Alberta), Part XI of *The Securities Act, 1988* (Saskatchewan), Part VII of *The Securities Act* (Manitoba), Part XV of the *Securities Act* (Ontario), Section 13 of the *Security Frauds Prevention Act* (New Brunswick), Section 63 of the *Securities Act* (Nova Scotia), Part II of the *Securities Act* (Prince Edward Island) and Part XIV of the *Securities Act* (Newfoundland and Labrador) and the respective regulations thereunder. This prospectus does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed, as required by the *Securities Act* (Québec) and the regulations thereunder.

Skylon Advisors Inc.
as trustee of Convertible & Yield Advantage Trust

(Signed) GORDON A. MCMILLAN
Chief Executive Officer

(Signed) ANDREW A. MCKAY
Chief Financial Officer

On Behalf of the Board of Directors of Skylon Advisors Inc.

(Signed) COLIN S. MERCIER
Director

(Signed) SUSAN E. COLEMAN
Director

CERTIFICATE OF THE PROMOTERS

Dated: September 24, 2003

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 9 of the *Securities Act* (Alberta), Part XI of *The Securities Act, 1988* (Saskatchewan), Part VII of *The Securities Act* (Manitoba), Part XV of the *Securities Act* (Ontario), Section 13 of the *Security Frauds Prevention Act* (New Brunswick), Section 63 of the *Securities Act* (Nova Scotia), Part II of the *Securities Act* (Prince Edward Island) and Part XIV of the *Securities Act* (Newfoundland and Labrador) and the respective regulations thereunder. This prospectus does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed, as required by the *Securities Act* (Québec) and the regulations thereunder.

Skylon Advisors Inc., as Promoter

By: (Signed) GORDON A. MCMILLAN
Chief Executive Officer

Skylon Capital Corp., as Promoter

By: (Signed) GORDON A. MCMILLAN
Chief Executive Officer

CERTIFICATE OF THE AGENTS

Dated: September 24, 2003

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 9 of the *Securities Act* (Alberta), Part XI of *The Securities Act, 1988* (Saskatchewan), Part VII of *The Securities Act* (Manitoba), Part XV of the *Securities Act* (Ontario), Section 13 of the *Security Frauds Prevention Act* (New Brunswick), Section 64 of the *Securities Act* (Nova Scotia), Part II of the *Securities Act* (Prince Edward Island) and Part XIV of the *Securities Act* (Newfoundland and Labrador) and the respective regulations thereunder. To the best of our knowledge, this prospectus does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed, as required by the *Securities Act* (Québec) and the regulations thereunder.

TD SECURITIES INC.

CIBC WORLD MARKETS INC.

RBC DOMINION SECURITIES INC.

By: (Signed) J. DAVID BEATTIE

By: (Signed) RONALD W.A. MITCHELL

By: (Signed) EDWARD JACKSON

BMO NESBITT BURNS INC.

NATIONAL BANK FINANCIAL INC.

SCOTIA CAPITAL INC.

By: (Signed) DAVID R. THOMAS

By: (Signed) MICHAEL D. SHUH

By: (Signed) BRIAN D. MCCHESEY

CANACCORD CAPITAL CORPORATION

HSBC SECURITIES (CANADA) INC.

RAYMOND JAMES LTD.

By: (Signed) DOUGLAS A. DOIRON

By: (Signed) DEBORAH J. SIMKINS

By: (Signed) SARA MINATEL

DUNDEE SECURITIES CORPORATION

By: (Signed) DAVID G. ANDERSON

DESJARDINS SECURITIES INC.

By: (Signed) JACQUES LEMAY

BIEBER SECURITIES INC.

FIRST ASSOCIATES INVESTMENTS INC.

WELLINGTON WEST CAPITAL INC.

By: (Signed) GUY BIEBER

By: (Signed) PATRICK LEUNG

By: (Signed) KEVIN HOOKE



 **MFC Global**
Investment Management

 **Manulife Financial**