

PROSPECTUS

Initial Public Offering

October 30, 2002



SAXON DIVERSIFIED VALUE TRUST

\$75,000,000 (MAXIMUM)

7,500,000 SERIES 2012 UNITS

Saxon Diversified Value Trust (the "Trust"), an investment trust established under the laws of Ontario, proposes to issue redeemable, transferable units (the "Units") of the Trust called Series 2012 Units (the "Offering").

The Trust's investment objectives are to:

- (i) provide holders of Units ("Holders") with a stable stream of tax efficient monthly distributions consisting primarily of capital gains and return of capital targeted to be \$0.0666 per Unit (\$0.80 per annum to yield 8.00% on the subscription price of \$10.00 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 (\$10.00 per Unit) to Holders on or about December 31, 2012 (the "Termination Date").

The Trust will provide Holders with exposure to the returns on a diversified portfolio consisting primarily of securities of Canadian publicly traded ongoing business income trusts (the "Ongoing Business Trust Portfolio") and to the returns on a diversified portfolio consisting primarily of securities of Canadian publicly traded real estate investment trusts, oil and gas trusts, and energy infrastructure funds (the "Resource and Real Estate Portfolio"). By giving Holders access to such returns, the Trust provides Holders with a conservative investment vehicle by taking advantage of the diversification benefits offered by the rapidly expanding income trusts sector.

Howson Tattersall Investment Counsel Ltd. (the "Investment Advisor"), a privately held value-oriented investment firm that manages approximately \$1.2 billion in assets for institutional, individual and mutual fund clients, will be appointed as the investment advisor to the Trust and to a newly created investment trust, Saxon Ongoing Business Trust (the "Ongoing Business Trust"). The Investment Advisor will actively manage the Ongoing Business Trust Portfolio on behalf of the Ongoing Business Trust and the Resource and Real Estate Portfolio on behalf of the Trust, in each case using a value style of portfolio management.

The Investment Advisor will allocate the assets of the Trust invested from time to time on the basis of the anticipated after tax returns to Holders that each investment is expected to yield. The Investment Advisor anticipates that initially 60% to 70% of the net proceeds of the Offering will be invested to provide exposure to the return on the Ongoing Business Trust Portfolio and the balance of the net proceeds will be invested in the Resource and Real Estate Portfolio. The Investment Advisor further anticipates that at least 50% of the Trust's assets will, at all times, be invested to provide exposure to the returns on securities of ongoing business income trusts.

The return to the Holders of the Trust will be dependent upon the return on the Ongoing Business Trust Portfolio by virtue of the Forward Agreement and upon the return on the Resource and Real Estate Portfolio. Specifically, to provide the Trust with the means to meet its investment objectives, the Trust will: (i) invest a portion of the net proceeds of the Offering in a portfolio of common shares of Canadian public companies (the "Common Share Portfolio") in respect of which the Trust will then enter into one or more forward purchase and sale agreements (collectively, the "Forward Agreement") with TD Global Finance ("TDGF"), a member of the TD Bank Financial Group, and/or Royal Bank of Canada ("RBC") and/or Canadian Imperial Bank of Commerce ("CIBC") (TDGF and/or RBC and/or CIBC hereinafter collectively referred to as the "Counterparties") pursuant to which the Counterparties will agree to pay to the Trust on or about the Termination Date as the purchase price for the Common Share Portfolio an amount equal to 100% of the redemption proceeds of a corresponding number of units of the Ongoing Business Trust; and (ii) invest the balance of the net proceeds of the Offering in the Resource and Real Estate Portfolio. The obligations of TDGF under the Forward Agreement will be guaranteed by The Toronto-Dominion Bank, TD Securities Inc. ("TDSI"), RBC Dominion Securities Inc. ("RBC DS") and CIBC World Markets Inc. are affiliates of TDGF, RBC and CIBC, respectively, and are also Agents for the Offering. See "Investment Guidelines of the Trust".

The Trust's distributions are intended to benefit Holders as returns of capital are generally not subject to tax (as returns of capital reduce the adjusted cost base of Units) and distributions that are designated as capital gains will generally be taxed at a lower rate than distributions of interest, dividend and/or other investment income. Accordingly, Units are intended to be tax efficient when compared to units of a trust that depends solely on such other sources of income to pay distributions. See "Canadian Federal Income Tax Considerations".

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Skylon Advisors Inc. (the “Manager”) has been retained to act as manager of the Trust. The Manager will provide all administrative services required by the Trust. The Manager will also act as the manager of the Ongoing Business Trust and will retain the Investment Advisor as investment advisor to the Ongoing Business Trust to actively manage the Ongoing Business Trust Portfolio. The Manager will be responsible for execution of the Trust’s investment strategy, which includes acquiring the Common Share Portfolio, entering into the Forward Agreement and managing the Resource and Real Estate Portfolio. The Manager will retain the Investment Advisor as investment advisor to the Trust to actively manage the Resource and Real Estate Portfolio.

The Toronto Stock Exchange (the “TSX”) has conditionally approved the listing of Units, subject to fulfillment by the Trust of the requirements of the TSX on or before January 7, 2003, including distribution to a minimum number of Holders.

Price: \$10.00 per Unit
Minimum Purchase: 250 Units

	Price to Public ⁽¹⁾	Agents’ Fee	Net Proceeds to the Trust ⁽²⁾
Per Unit	\$10.00	\$0.525	\$9.475
Maximum Offering ⁽³⁾⁽⁴⁾	\$75,000,000	\$3,937,500	\$71,062,500
Minimum Offering ⁽³⁾	\$20,000,000	\$1,050,000	\$18,950,000

(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 \$550,000, 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 2,000,000 Units are sold. The maximum offering assumes that 7,500,000 Units are sold.

(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 1,125,000 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 \$86,250,000, the Agents’ fee will be \$4,528,125 and the net proceeds to the Trust will be \$81,721,875. 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.

Units may be surrendered for redemption not more than 45 days, and at least ten Business Days (any day on which the TSX 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 the performance of the Ongoing Business Trust Portfolio and the Resource and Real Estate Portfolio. 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), Units offered hereby will be qualified investments under the *Income Tax Act* (Canada) for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans. Based on the Trust’s proposed investments and provided the Trust is a “mutual fund trust” within the meaning of the *Income Tax Act* (Canada), Units will not constitute “foreign property” for purposes of the tax imposed under Part XI of the *Income Tax Act* (Canada).

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.

TDSI, CIBC World Markets Inc., RBC DS, BMO Nesbitt Burns Inc., National Bank Financial Inc., Scotia Capital Inc., Raymond James Ltd., HSBC Securities (Canada) Inc., Yorkton Securities Inc., Canaccord Capital Corporation and Desjardins Securities Inc. (collectively, 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.

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 November 28, 2002, but no later than December 28, 2002. 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 which Units are purchased. See “Plan of Distribution” and “Trust Agreement and Description of Units — Book-Entry Only System”.

The Manager, in its capacity as manager of the Ongoing Business Trust, has agreed to obtain a receipt for a prospectus of the Ongoing Business Trust from the Commission des valeurs mobilières du Québec and deliver a copy of such prospectus to purchasers in the Province of Québec prior to the purchase of Units by any person in the Province of Québec.

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Unless otherwise indicated, all references to dollar amounts in this prospectus are to Canadian dollars.

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.

Issuer:	Saxon Diversified Value Trust (the “Trust”), an investment trust established under the laws of Ontario, which invests its assets in accordance with the investment objectives and strategy described under “Investment Guidelines of the Trust”.
Offering:	The offering consists of redeemable, transferable units (the “Units”) of the Trust called Series 2012 Units (the “Offering”).
Maximum Issue:	\$75,000,000 (7,500,000 Units).
Minimum Issue:	\$20,000,000 (2,000,000 Units).
Price:	\$10.00 per Unit.
Minimum Subscription:	\$2,500 (250 Units).
Investment Objectives:	<p>The Trust’s investment objectives are to:</p> <ul style="list-style-type: none">(i) provide holders of Units (“Holders”) with a stable stream of tax efficient monthly distributions consisting primarily of capital gains and return of capital targeted to be \$0.0666 per Unit (\$0.80 per annum to yield 8.00% on the subscription price of \$10.00 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 (\$10.00 per Unit) to Holders on or about December 31, 2012 (the “Termination Date”). <p>The return to the Holders and the Trust will be dependent upon the return on the Ongoing Business Trust Portfolio (as defined below) by virtue of the Forward Agreement (as defined below) and upon the return on the Resource and Real Estate Portfolio (as defined below).</p> <p>The Trust’s distributions are intended to benefit Holders as returns of capital are generally not subject to tax (as returns of capital reduce the adjusted cost base of Units) and distributions that are designated as capital gains will generally be taxed at a lower rate than distributions of interest, dividend and/or other investment income. Accordingly, Units are intended to be tax efficient when compared to units of a trust that depends solely on such other sources of income to pay distributions. See “Canadian Federal Income Tax Considerations”.</p>
Investment Strategy:	Howson Tattersall Investment Counsel Ltd. (the “Investment Advisor”) will be appointed as the investment advisor to the Trust and to a newly created investment trust, Saxon Ongoing Business Trust (the “Ongoing Business Trust”). The Investment Advisor will actively manage a diversified portfolio consisting primarily of securities of Canadian publicly traded ongoing business income trusts (the “Ongoing Business Trust Portfolio”) on behalf of the Ongoing Business Trust. The Investment Advisor will also actively manage a diversified portfolio consisting primarily of securities of Canadian publicly traded real estate investment trusts, oil and gas trusts, and energy infrastructure funds (the “Resource and Real Estate Portfolio”) on behalf of the Trust. In each case, the Investment Advisor will use a value style of portfolio management.

The Investment Advisor will allocate the assets of the Trust invested from time to time on the basis of the anticipated after tax returns to Holders that each investment is expected to yield. The Investment Advisor anticipates that initially 60% to 70% of the net proceeds of the Offering will be invested to provide exposure to the return on the Ongoing Business Trust Portfolio and the balance will be invested in the Resource and Real Estate Portfolio. The Investment Advisor further anticipates that at least 50% of the Trust's assets will, at all times, be invested to provide exposure to the returns on securities of ongoing business income trusts.

To provide the Trust with the means to meet its investment objectives, the Trust will: (i) invest a portion of the net proceeds of the Offering in a portfolio of common shares of Canadian public companies (the "Common Share Portfolio") in respect of which the Trust will then enter into one or more forward purchase and sale agreements (collectively, the "Forward Agreement") with TD Global Finance ("TDGF"), a member of the TD Bank Financial Group, and/or Royal Bank of Canada ("RBC") and/or Canadian Imperial Bank of Commerce ("CIBC") (TDGF and/or RBC and/or CIBC hereinafter collectively referred to as the "Counterparties") pursuant to which the Counterparties will agree to pay to the Trust on or about the Termination Date as the purchase price for the Common Share Portfolio an amount equal to 100% of the redemption proceeds of a corresponding number of units of the Ongoing Business Trust and (ii) invest the balance of the net proceeds of the Offering in the Resource and Real Estate Portfolio. The obligations of TDGF under the Forward Agreement will be guaranteed by The Toronto-Dominion Bank, TD Securities Inc. ("TDSI") and RBC Dominion Securities Inc. ("RBC DS") and CIBC World Markets Inc. are affiliates of TDGF, RBC and CIBC, respectively, and are also Agents for the Offering. The long-term debt of the Counterparties or any guarantor will be rated at least A by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. or have an equivalent rating from Dominion Bond Rating Service Limited or other "approved credit rating organization" as defined in National Instrument 81-102 — Mutual Funds ("NI 81-102").

The return to the Holders and the Trust will be dependent upon the return on the Ongoing Business Trust Portfolio by virtue of the Forward Agreement and upon the return on the Resource and Real Estate Portfolio. By giving Holders access to such returns, the Trust provides Holders with a conservative investment vehicle by taking advantage of the diversification benefits offered by the rapidly expanding income trusts sector. However, neither the Trust nor the Holders will have any ownership interest in the Ongoing Business Trust or the Ongoing Business Trust Portfolio. See "Investment Guidelines of the Trust".

Investment Advisor:

The Investment Advisor is a privately held value-oriented investment firm that manages a total of approximately \$1.2 billion in assets for institutional, individual and mutual fund clients. The portfolio manager of the Investment Advisor who will have primary responsibility for the Ongoing Business Trust Portfolio and the Resource and Real Estate Portfolio will be Richard Howson. Mr. Howson is Executive Vice-President of the Investment Advisor. He has 28 years of experience in investment research and portfolio management, originally at Wood Gundy Inc. (now CIBC World Markets Inc.) and at the Investment Advisor since 1989. Mr. Howson manages private client and institutional portfolios, as well as three of the Saxon Mutual Funds: Saxon High Income Fund, Saxon Balanced Fund and Saxon Stock Fund. Other key members of the Howson Tattersall investment team are Robert Tattersall and Scott Carscallen. Mr. Carscallen will

assist Mr. Howson in the management of the Ongoing Business Trust Portfolio and the Resource and Real Estate Portfolio.

The Saxon High Income Fund is an open-ended trust which invests primarily in Canadian income trusts, fixed income securities and high-yielding equities. Historically, 70% to 90% of the Saxon High Income Fund's net assets have been invested in securities of income trusts. The Saxon Small Cap is an open-ended trust which invests primarily in common shares of publicly traded Canadian companies the majority of which have a market capitalization of less than \$500 million.

The net asset value at September 30, 2002, and the one, three and five year annual rates of return for the Saxon High Income Fund, the Saxon Small Cap and the Scotia Capital Income Fund Index — Overall are as follows:

	Net Asset Value (in millions)	RATES OF RETURN ⁽³⁾		
		1 Year ⁽⁴⁾	3 Years	5 Years
Saxon High Income Fund ⁽¹⁾	\$ 35.2	16.56%	15.38%	9.41% ⁽⁵⁾
Saxon Small Cap ⁽¹⁾	\$ 84.8	18.69%	8.71%	6.51%
Scotia Capital Income Fund Index — Overall ⁽²⁾	N/A	16.94%	16.31%	5.11%

Notes:

- (1) Source: Saxon Mutual Funds. The indicated rates of return for the three and five year periods are the historical annual compounded total returns assuming re-investment of distributions and net of management fees. The indicated rates of return do not take into account sales, redemption, distribution charges or income taxes payable by the investor.
- (2) Source: Scotia Capital. The Scotia Capital Income Fund Index — Overall is a composite index which reflects the public float weighted average returns of Canadian publicly traded income trusts. The indicated rates of return for the three and five year periods are based on the historical annual compounded total returns of the constituent income trusts assuming re-investment of distributions. The indicated rates of return do not take into account sales, redemption, distribution charges or income taxes payable by the investor in respect of an investment in any of the constituent income trusts.
- (3) At September 30, 2002.
- (4) Simple rate of return.
- (5) Since inception on November 10, 1997.

There can be no assurance that the performance of the Ongoing Business Trust Portfolio or the performance of the Resource and Real Estate Portfolio will equal or exceed the performance of the Saxon High Income Fund or the Saxon Small Cap. The investment objectives of the Saxon High Income Fund and the Saxon Small Cap differ from those of the Trust and the Ongoing Business Trust. Past performance is not necessarily indicative of future performance.

**Investment Advisor's
Investment Approach:**

The Investment Advisor has established a leading position in the Canadian investment community based on its disciplined approach to investing, particularly within the small cap sector of the Canadian market. In managing the Ongoing Business Trust Portfolio and the Resource and Real Estate Portfolio, the Investment Advisor will use the value style of portfolio management which it uses to manage the Saxon Mutual Funds. The Saxon style of value management emphasizes low portfolio turnover, broad diversification among industry sectors and a significant bias in security selection towards statistically inexpensive securities as well as securities in out of favour industry categories. The Investment Advisor's value style of investing in the small cap sector of the

Canadian equity market is applicable to its management of the Ongoing Business Trust Portfolio and the Resource and Real Estate Portfolio since most Canadian publicly traded income trusts have market capitalizations of less than \$500 million and, in the case of ongoing business income trusts, the underlying operating businesses are similar to those of traditional small cap issuers. The Investment Advisor attributes its success in managing both the Saxon High Income Fund and the Saxon Small Cap to this approach.

In managing both the Ongoing Business Trust Portfolio and the Resource and Real Estate Portfolio, the Investment Advisor will emphasize the following factors in security selection:

- (i) The income trust's competitive position within its industry and its ability to grow either internally or through acquisition. This would include the ability to increase production and revenue without incurring substantial capital expenditures. Greater emphasis will be placed on income trusts which have long term sustainable business models rather than income trusts holding depleting assets.
- (ii) The income trust's financial structure including debt/equity levels.
- (iii) The level of the income trust's distributions compared with the underlying distributable cash flow after deducting a charge for maintenance capital expenditures.
- (iv) The market valuation of the income trust compared with valuations of similar companies, either trading in the public markets or under private ownership.

For further information about the composition and the investment management of the Ongoing Business Trust Portfolio and the Resource and Real Estate Portfolio see "The Ongoing Business Trust Portfolio" and "The Resource and Real Estate Portfolio".

Income Trusts:

Income trusts are trusts generally structured to own debt and equity of an underlying company, or a royalty in revenues generated by the assets thereof, which carries on an active business. The income trust structure was developed to facilitate distributions to investors on a tax efficient basis. An income trust can generally avoid paying tax by allocating all of its taxable income to unitholders, thus avoiding a layer of taxation associated with corporate entities. The income trust structure is typically adopted by businesses that require a limited amount of capital in maintaining their property, plant and equipment and generate stable cash flows. Although most income funds are established as trusts, others are established as limited partnerships.

Since distributions to unitholders of income trusts are derived from the operation of an underlying business, many with additional growth potential, the projected life of distributions and the sustainability of distribution levels tend to vary with the nature of the business underlying the income trust. Generally, the income trust acquires equity and debt securities of an operating corporation with the proceeds of the issue of trust units. The operating corporation typically distributes all, or substantially all of the excess cash flow from its assets to the income trust by means of dividends, interest and repayments of debt principal.

The variety of businesses upon which income trusts have been created has become broad, both in the nature of the underlying industry and assets and in geographic location. Most income trusts may be characterized within one of the

following four broad categories: ongoing business income trusts, real estate investment trusts, oil and gas trusts and energy infrastructure funds (including power generation funds and pipeline energy distribution funds).

The businesses underlying **ongoing business income trusts** are typically mature businesses with long life assets, stable cash flows, stable operating histories and they may have significant internal growth prospects. The range of businesses that have been established as ongoing business income trusts is very diverse and encompasses many industries, such as: food manufacturing and retailing (e.g., fast food, sardines, sugar), commercial manufacturing (e.g., ice cubes, mattresses, peat moss, cheque printing), storage and distribution (e.g., cold storage, port terminals), waste disposal and recycling (e.g., chemical waste), customs brokerage and trade-related services, retail sales and energy distribution and related support services (e.g., natural gas marketing, propane marketing) and forestry and mining.

Real estate investment trusts (“REITs”) are similar in structure to other types of income trusts except that they generally invest directly in income producing real estate. The primary income generated by REITs is rental and lease income from commercial, industrial or residential real estate properties, which can include office buildings, hotels, shopping centres or residential rental properties.

Oil and gas trusts are income trusts where the principal underlying business is the exploitation, production and sale of oil and gas products. These trusts pay out to unitholders a high percentage of the cash flow that they receive from the production and sale of underlying crude oil and natural gas reserves. The amount of distributions paid on an oil and gas trust’s units will vary from time to time based on production levels, commodity prices, royalty rates and certain expenses, deductions and costs.

Energy infrastructure funds are similar to ongoing business income trusts with the principal underlying business being power generation and pipelines.

**Ongoing Business Trust
Portfolio:**

The Ongoing Business Trust Portfolio will be a diversified portfolio consisting primarily of securities of Canadian publicly traded ongoing business income trusts. Such securities may include, but are not limited to, trust units, limited partnership units and convertible debentures.

The Investment Advisor will select, monitor and actively manage the Ongoing Business Trust Portfolio for the Ongoing Business Trust using a value style of portfolio management.

Initially, the Investment Advisor anticipates that 60% to 70% of the net proceeds of the Offering will be invested to provide exposure to the return on the Ongoing Business Trust Portfolio, and the balance of the net proceeds will be invested in the Resource and Real Estate Portfolio. The Investment Advisor further anticipates that at least 50% of the Trust’s assets will, at all times, be invested to provide exposure to the returns on securities of ongoing business income trusts. The proportion of the assets of the Trust invested to provide exposure to the return on the Ongoing Business Trust Portfolio will vary from time to time based on the Investment Advisor’s assessment of the appropriate strategy and market conditions and outlook.

The Investment Advisor contemplates that the Ongoing Business Trust Portfolio will initially comprise securities of the types of income trusts and in the amounts of the targeted ranges shown in the table below:

Ongoing Business Trust Portfolio

<u>Type of Income Trust</u>	<u>Initial Targeted Ranges</u>
Ongoing Business Income Trusts	70% to 80%
Oil and Gas Trusts	10% to 20%
REITs	0% to 10%
Energy Infrastructure Funds	0% to 10%

The actual composition of the Ongoing Business Trust Portfolio may vary from the targeted ranges shown in the table based on the Investment Advisor’s assessment of market conditions and the availability of income trust securities at the time of investment.

Resource and Real Estate Portfolio:

The Resource and Real Estate Portfolio will consist primarily of a diversified portfolio of securities of Canadian publicly traded REITs, oil and gas trusts and energy infrastructure funds. Such securities may include, but are not limited to, trust units, limited partnership units and convertible debentures.

The Investment Advisor will select, monitor and actively manage the Resource and Real Estate Portfolio using a value style of portfolio management.

Initially, the Investment Advisor anticipates that 30% to 40% of the net proceeds of the Offering will be invested in the Resource and Real Estate Portfolio and the balance of the net proceeds will be invested to provide exposure to the return on the Ongoing Business Trust Portfolio. The proportion of assets of the Trust invested in the Resource and Real Estate Portfolio will vary from time to time based on the Investment Advisor’s assessment of the appropriate strategy and market conditions and outlook.

The Investment Advisor contemplates that the Resource and Real Estate Portfolio will initially comprise securities of the types of income trusts and in the amounts of the targeted ranges shown in the table below:

Resource and Real Estate Portfolio

<u>Type of Income Trust</u>	<u>Initial Targeted Ranges</u>
REITs	80% to 90%
Oil and Gas Trusts	10% to 20%
Energy Infrastructure Funds	0% to 10%
Ongoing Business Income Trusts	0% to 10%

The actual composition of the Resource and Real Estate Portfolio may vary from the targeted ranges shown in the table based on the Investment Advisor’s assessment of market conditions and the availability of income trust securities at the time of investment.

Loan Facilities:

The Trust may enter into a loan facility (the “Loan Facility”) with a financial institution (the “Lender”) prior to or shortly after the closing of the Offering. The Investment Advisor, on behalf of the Trust, intends to use the Loan Facility, 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 Resource and Real Estate Portfolio and

the cost of borrowing the purchase price for such investments. The Loan Facility may be drawn down following the closing of the Offering in an aggregate amount not to exceed 25% of the total assets of the Resource and Real Estate Portfolio, provided that the cost of borrowing under the Loan Facility is at least 4% less than the average annualized trailing 12 month yield of the income trusts included in the Resource and Real Estate Portfolio, as determined at the time of borrowing. See “Investment Guidelines of the Trust — Loan Facility”.

The Ongoing Business Trust may also enter into a loan facility (the “Ongoing Business Trust Loan Facility”) with a financial institution (the “Lender”) prior to or shortly after the closing of the Offering. The Investment Advisor, on behalf of the Ongoing Business Trust, intends to use the Ongoing Business Trust Loan Facility, when market conditions are appropriate, to attempt to increase the potential returns of the Ongoing Business Trust by taking advantage of the spread between the potential return on additional investments in the Ongoing Business Trust Portfolio and the cost of borrowing the purchase price for such investments. The Ongoing Business Trust Loan Facility may be drawn down following the closing of the Offering in an aggregate amount not to exceed 25% of the total assets of the Ongoing Business Trust, provided that the cost of borrowing under the Ongoing Business Trust Loan Facility is at least 4% less than the average annualized trailing 12 month yield of the income trusts included in the Ongoing Business Trust Portfolio, as determined at the time of borrowing. See “Investment Guidelines of the Ongoing Business Trust — Ongoing Business Trust Loan Facility”.

Manager:

Skylon Advisors Inc. (the “Manager”) will act as the manager of the Trust. 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, is the manager of Skylon Capital Yield Trust, which provides investors with exposure to the return on high yield debt securities, Skylon Global Capital Yield Trust, which provides investors with exposure to the return on global high yield investments, and the VentureLink Group of Funds which currently include: 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.

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 tax efficient monthly distributions consisting primarily of capital gains and return of capital targeted to be \$0.0666 per Unit (\$0.80 per annum to yield 8.00% on the subscription price of \$10.00 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 December 31, 2002. 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 *Income Tax Act* (Canada).

See “Distributions”.

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 Trust Agreement (as described under “Trust Agreement 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 NAV per Unit (as defined below) 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, subject to any applicable regulatory requirements and limitations.

See “Trust Agreement 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	\$75,000,000	\$20,000,000
Agents’ fee	\$ 3,937,500	\$ 1,050,000
Expenses of issue	<u>\$ 550,000</u>	<u>\$ 550,000</u>
Net proceeds to the Trust	<u>\$70,512,500</u>	<u>\$18,400,000</u>

The Trust will use the net proceeds of the Offering (including any net proceeds from the exercise of the Over-Allotment Option) to invest in (i) the Common Share Portfolio which will be subject to the Forward Agreement and (ii) the Resource and Real Estate Portfolio.

Termination:

On or about December 31, 2012, 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 net asset value per Unit of the Trust (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 the performance of the Ongoing Business Trust Portfolio and the Resource and Real Estate Portfolio. 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.

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 *Income Tax Act* (Canada), Units offered hereby will be qualified investments under the *Income Tax Act* (Canada) for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans. Based on the Trust’s proposed investments and provided the Trust is a “mutual fund trust” within the meaning of the *Income Tax Act* (Canada), Units will not constitute “foreign property” for purposes of the tax imposed under Part XI of the *Income Tax Act* (Canada).

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. Provided the Trust elects in accordance with the *Income Tax Act* (Canada) to have each of its Canadian securities (including Common Share Portfolio 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. A Holder who disposes of Units held as capital property (on redemption or otherwise) will realize a capital gain to the extent that the proceeds of disposition exceed the adjusted cost base of Units and any reasonable costs of disposition. See “Canadian Federal Income Tax Considerations”. **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.**

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 Ongoing Business Trust Portfolio or the Resource and Real Estate Portfolio will earn any return; the Ongoing Business Trust Portfolio and the Resource and Real Estate Portfolio could be subject to losses;
- (ii) the NAV will vary according to, among other things, distributions paid on the Units and the value of the securities in the Ongoing Business Trust Portfolio and in the Resource and Real Estate Portfolio;
- (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) counterparty risks associated with the Forward Agreement;
- (v) counterparty risks associated with securities lending;

- (vi) the intention to use leverage in the Resource and Real Estate Portfolio and in the Ongoing Business Trust Portfolio to enhance yield and that the Trust and the Ongoing Business Trust may use the maximum amount of leverage permitted;
- (vii) investments in REITs are subject to general risks associated with real property investments;
- (viii) the Trust's lack of operating history and the current absence of a public trading market for Units;
- (ix) the fact that if, contrary to the advice of counsel to the Trust and to the Agents or as a result of a change of law, upon physical settlement of the Forward Agreement the character and timing of the gain under the Forward Agreement were other than a capital gain on the sale of the securities thereunder, after-tax returns to Holders could be reduced and the Trust could be subject to non-refundable income tax from such transactions;
- (x) the fact that if, contrary to the advice of counsel to the Trust and to the Agents, the administrative position of the Canada Customs and Revenue Agency relating to the deductibility of interest on money borrowed to invest in income funds were to apply to the Trust in respect of money borrowed to acquire the Resource and Real Estate Portfolio the after-tax returns to Holders could be reduced and the Trust could be subject to non-refundable income tax and if such position were to apply to the Ongoing Business Trust in connection with money borrowed to invest in the Ongoing Business Trust Portfolio, the Ongoing Business Trust could be subject to non-refundable tax, reducing the return to the Trust under the Forward Agreement;
- (xi) reliance on the Manager, the Investment Advisor and their key personnel;
- (xii) possible changes in tax or other legislation;
- (xiii) the potential liability of Holders;
- (xiv) potential conflicts of interest;
- (xv) status of the Trust and the Ongoing Business Trust for securities law purposes;
- (xvi) foreign currency exposure; and
- (xvii) risks associated with interest rate changes and the sensitivity of the market price of Units to interest rates.

See "Risk Factors".

SUMMARY OF FEES AND EXPENSES

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

<u>Type of Charge</u>	<u>Description</u>
Fees payable to the Agents for selling Units:	\$0.525 per Unit.
Expenses of Issue:	The Trust will pay the expenses incurred in connection with the Offering, which are estimated to be \$550,000.
Management Fees:	As compensation for management services rendered to the Trust, the Manager is entitled to receive (i) in respect of the Resource and Real Estate Portfolio, an annual management fee in an amount equal to 1.10% of the net asset value of the Resource and Real Estate Portfolio and (ii) in respect of management of the Trust’s other assets, an annual management fee in an amount equal to 0.55% of the net asset value of the Trust’s assets other than the Resource and Real Estate Portfolio, each such fee to be calculated and payable monthly in arrears, plus applicable taxes. In addition, the Manager is entitled to receive an amount equal to the service fee (the “Service Fee”) payable to registered dealers. As compensation for management services rendered to the Ongoing Business Trust, the Manager is entitled to receive an annual management fee in an amount equal to 0.55% of the net asset value of the Ongoing Business Trust calculated and payable monthly in arrears, plus applicable taxes. The Manager, in its capacity as manager of the Trust and the Ongoing Business Trust, is responsible for payment of the investment management fees of the Investment Advisor.
Ongoing expenses of the Trust:	The Trust will pay to the Counterparties a fee under the Forward Agreement of approximately 0.65% per annum of the net asset value of the Ongoing Business Trust, plus a fee which may vary based on the value of the Common Share Portfolio, calculated and payable monthly in arrears. Each of the Trust and the Ongoing Business Trust will also pay for all expenses incurred in connection with its operation and administration, estimated to be \$125,000 and \$150,000, for the Trust and the Ongoing Business Trust respectively, per annum (assuming an offering size of approximately \$50 million). See “Fees and Expenses — Ongoing Expenses” and “Management of the Trust — Forward Agreement”. Each of the Trust and the Ongoing Business 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 Manager 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.

In the event that the Trust does not distribute at least \$0.0666 per Unit in respect of any month commencing with the second month following the month in which closing of the Offering occurs, the aggregate management fees payable to the Manager, in its capacity as manager of the Trust, in respect of each subsequent month and the Service Fee payable to registered dealers in respect of each such subsequent month shall be reduced *pro rata* based on the amount by which the distribution in respect of the previous month is less than \$0.0666 per Unit, subject to a minimum monthly management fee of $\frac{1}{12}$ of 0.55% of the net asset value of the Resource and Real Estate Portfolio. Subject to the minimum fee described above, the management fees payable to the Manager in respect of the Resource and Real Estate Portfolio and in respect of the Trust’s other assets shall be reduced in equal proportions. Regular monthly fees payable to the Manager and the Service Fee payable to registered dealers will resume in respect of the month (or, in the case of the Service Fee, the semi-annual period) for which the Trust distributes at least \$0.0666 per Unit. The amount by which such fees are reduced will not be recoverable by the Manager until such time as the corresponding distribution shortfall has been paid to the Holders and, on the Termination Date, will not be payable out of the assets of the Trust or the Ongoing Business Trust, unless an amount equal to any remaining distribution shortfall plus the original subscription price is returned to Holders.

THE TRUST

Saxon Diversified Value Trust (the “Trust”) is an investment trust established under the laws of Ontario pursuant to a trust agreement dated as of October 30, 2002 (the “Trust Agreement”) between Skylon Advisors Inc. as manager (the “Manager”) and 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 called Series 2012 Units (the “Units”).

The Manager will retain Howson Tattersall Investment Counsel Ltd. (the “Investment Advisor”) as investment advisor to the Trust pursuant to an investment advisory agreement between the Manager and the Investment Advisor (the “Investment Advisory Agreement”). See “The Investment Advisor” and “Management of the Trust — The Investment Advisory Agreement”.

Status of the Trust

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. Although certain restrictions imposed on mutual funds under Canadian securities laws do not apply to the Trust, the Trust has adopted certain investment restrictions that are applicable to mutual funds under National Instrument 81-102 — Mutual Funds (“NI 81-102”). See “Investment Guidelines of the Trust — Investment Restrictions of the Trust”.

THE ONGOING BUSINESS TRUST

Saxon Ongoing Business Trust (the “Ongoing Business Trust”) is a newly created investment trust that will be established prior to the closing of the offering of Units (the “Offering”) under the laws of Ontario pursuant to a trust agreement between the Manager as manager and trustee of the Ongoing Business Trust. The Trustee is the trustee of the Ongoing Business Trust. The Ongoing Business Trust will be established for the purpose of acquiring a diversified portfolio consisting primarily of securities of Canadian publicly traded ongoing business income trusts and, to a lesser extent, securities of other types of Canadian publicly traded income trusts (the “Ongoing Business Trust Portfolio”). The Ongoing Business Trust will terminate on or about December 31, 2012 (the “Termination Date”) if not terminated earlier in accordance with its terms.

The initial holders of units of the Ongoing Business Trust will be the Counterparties (as hereinafter defined) or affiliates of the Counterparties. The aggregate net asset value of the units subscribed for by these parties will, at the time of issuance, be at least equal to the net asset value of the Common Share Portfolio (as hereinafter defined) of the Trust at the time the Trust enters into the Forward Agreement (as hereinafter defined). See “Management of the Trust — Forward Agreement.”

Units of the Ongoing Business Trust will be redeemable at the demand of its unitholders. The Manager will sell units in the Ongoing Business Trust as required in order to pay unitholders the net proceeds of disposition of the Ongoing Business Trust Portfolio (after satisfaction of its liabilities, if any) on the Termination Date. Where circumstances prevent an orderly sale of the Ongoing Business Trust Portfolio, the Manager may suspend redemptions or payments to be made on the Termination Date to allow for an orderly sale of all or part of the Ongoing Business Trust Portfolio, as the case may be. The Manager acts as manager of the Ongoing Business Trust and will retain the Investment Advisor as investment advisor to the Ongoing Business Trust to manage the Ongoing Business Trust Portfolio pursuant to an investment advisory agreement between the Manager and the Investment Advisor (the “Ongoing Business Trust Investment Advisory Agreement”). See “The Investment Advisor” and “Management of the Ongoing Business Trust — The Ongoing Business Trust Investment Advisory Agreement”.

The Ongoing Business Trust’s distribution policy is to pay monthly distributions to holders of units and it will, in any event, distribute all of its net income and net realized capital gains earned in each fiscal year to ensure that it is not liable for income tax under the *Income Tax Act* (Canada).

THE INVESTMENT ADVISOR

The Investment Advisor was incorporated under the laws of Ontario on February 8, 1962. The Investment Advisor carries on business at Suite 1700, 151 Yonge Street, Toronto, Ontario, M5C 2W7.

The Investment Advisor is a privately held value-oriented investment firm that manages a total of approximately \$1.2 billion in assets for institutional, individual and mutual fund clients. The Investment Advisor also specializes in the research and analysis of small to medium sized companies. The portfolio manager of the Investment Advisor who will have primary responsibility for the Ongoing Business Trust Portfolio and the Resource and Real Estate Portfolio (as defined below) will be Richard Howson. Mr. Howson is Executive Vice-President of the Investment Advisor. He has 28 years of experience in investment research and portfolio management, originally at Wood Gundy Inc. (now CIBC World Markets Inc.) and at the Investment Advisor since 1989. Mr. Howson manages private client and institutional portfolios, as well as three of the Saxon Mutual Funds: Saxon High Income Fund, Saxon Balanced Fund and Saxon Stock Fund. Other key members of the Howson Tattersall investment team are Robert Tattersall and Scott Carscallen. Mr. Carscallen will assist Mr. Howson in the management of the Ongoing Business Trust Portfolio and the Resource and Real Estate Portfolio.

The Saxon High Income Fund is an open-ended trust which invests primarily in Canadian income trusts, fixed income securities and high-yielding equities. Historically, 70% to 90% of the Saxon High Income Fund's net assets have been invested in securities of income trusts. The Saxon Small Cap is an open-ended trust which invests primarily in common shares of publicly traded Canadian companies the majority of which have a market capitalization of less than \$500 million.

The net asset value at September 30, 2002, and the one, three and five year annual rates of return for the Saxon High Income Fund, the Saxon Small Cap and the Scotia Capital Income Fund Index — Overall are as follows:

	Net Asset Value (in millions)	RATES OF RETURN ⁽³⁾		
		1 Year ⁽⁴⁾	3 Years	5 Years
Saxon High Income Fund ⁽¹⁾	\$ 35.2	16.56%	15.38%	9.41% ⁽⁵⁾
Saxon Small Cap ⁽¹⁾	\$ 84.8	18.69%	8.71%	6.51%
Scotia Capital Income Fund Index — Overall ⁽²⁾	N/A	16.94%	16.31%	5.11%

Notes:

- (1) Source: Saxon Mutual Funds. The indicated rates of return for the three and five year periods are the historical annual compounded total returns assuming re-investment of distributions and net of management fees. The indicated rates of return do not take into account sales, redemption, distribution charges or income taxes payable by the investor.
- (2) Source: Scotia Capital. The Scotia Capital Income Fund Index — Overall is a composite index which reflects the public float weighted average returns of Canadian publicly traded income trusts. The indicated rates of return for the three and five year periods are based on the historical annual compounded total returns of the constituent income trusts assuming re-investment of distributions. The indicated rates of return do not take into account sales, redemption, distribution charges or income taxes payable by the investor in respect of an investment in any of the constituent income trusts.
- (3) At September 30, 2002.
- (4) Simple rate of return.
- (5) Since inception on November 10, 1997.

There can be no assurance that the performance of the Ongoing Business Trust Portfolio or the performance of the Resource and Real Estate Portfolio as defined below will equal or exceed the performance of the Saxon High Income Fund or the Saxon Small Cap. The investment objectives of the Saxon High Income Fund and the Saxon Small Cap differ from those of the Trust and the Ongoing Business Trust. Past performance is not necessarily indicative of future performance.

Officers and Directors of the Investment Advisor

The name, municipality of residence, position with the Investment Advisor and principal occupation of each of the directors and officers of the Investment Advisor are set out below. A biography for Scott Carscallen, who is not a director or officer of the Investment Advisor but who will assist Mr. Howson in the management of the Ongoing Business Trust Portfolio and the Resource and Real Estate Portfolio, is also set out below:

<u>Name and Municipality</u>	<u>Position with the Investment Advisor</u>	<u>Principal Occupation</u>
Robert Tattersall, CFA Toronto, Ontario	Director, Chief Executive Officer, President and Secretary	Investment Executive
Richard D.W. Howson, CFA Toronto, Ontario	Director, Chief Financial Officer and Executive Vice-President	Investment Executive
Dale Powell, CFA Oakville, Ontario	Vice-President, Marketing and Client Service	Vice-President
Thomas Lee Richmond Hill, Ontario	Director	Assistant Treasurer
Margaret P. Wulff Toronto, Ontario	Treasurer	Treasurer

Robert Tattersall is the President and Chief Executive Officer of the Investment Advisor, where he is responsible for managing the firm’s small cap and international equity mandates for retail mutual funds and as well as defined benefit pension funds. In addition to Saxon Small Cap and Saxon World Growth Funds, Mr. Tattersall also manages CIBC Canadian Emerging Companies Fund, the small cap component of the Imperial Canadian Equity Pool, Manulife Canadian Small Cap Equity Fund, and manages Spectrum Canadian Growth Fund. Mr. Tattersall joined the Investment Advisor in 1985. Previously he worked as an analyst and portfolio manager for Bolton Tremblay Inc. (now Montrusco Bolton Investments Inc.), and he began his career at Confederation Life Insurance Company. He holds a Master of Business Administration from Ohio State University and has the Chartered Financial Analyst designation.

Richard D.W. Howson is the Executive Vice-President and Chief Financial Officer of the Investment Advisor, where he is responsible for managing equity and balanced portfolios for retail mutual funds and high net worth individuals and families. Mr. Howson is the portfolio manager of Saxon Balanced Fund, Saxon Stock Fund and Saxon High Income Fund. Mr. Howson has 28 years of experience in the investment business. He began his career with Wood Gundy Inc. (now CIBC World Markets Inc.), where he was an analyst and portfolio manager, specialising in small cap securities. Mr. Howson is a past Director of the Toronto Society of Financial Analysts. He holds a Master of Business Administration from York University and has the Chartered Financial Analyst designation.

Dale Powell is the Vice-President, Marketing and Client Service of the Investment Advisor. He has over 16 years of experience in the investment industry. He began his career in 1986 as a floor trader with Dominion Securities Inc. (now RBC Dominion Securities Inc.) and was employed as a securities trader for 10 years. Prior to joining the Investment Advisor in 2001, he was Director, Business & Product Development with ING Investment Management Inc., where he designed and marketed investment products in Canada and in Europe. Mr. Powell’s undergraduate education was in economics at Simon Fraser University, is completing his Master of Business Administration from Heriot-Watt University in Scotland, and has the Chartered Financial Analyst designation.

Thomas Lee is the Assistant Treasurer and a Director of the Investment Advisor. He joined the Investment Advisor in 1988. Mr. Lee holds a Bachelor of Commerce degree and a Bachelor of Applied Science (Electrical Engineering) degree from the University of Windsor and is a Certified General Accountant.

Margaret P. Wulff is the Treasurer and a Director of the Investment Advisor. She joined the Investment Advisor in 1984. Ms. Wulff is also a trustee of the Saxon Mutual Funds.

Scott Carscallen is Assistant Portfolio Manager with the Investment Advisor. He has over 6 years of experience in the areas of fundamental investment research. Mr. Carscallen joined the Investment Advisor in 1999. Mr. Carscallen holds an Honours Bachelor of Business Administration degree from Wilfrid Laurier University, and has the Chartered Financial Analyst designation.

The Investment Advisor's Investment Approach

The Investment Advisor has established a leading position in the Canadian investment community based on its disciplined approach to investing, particularly within the small cap sector of the Canadian market. In managing the Ongoing Business Trust Portfolio and the Resource and Real Estate Portfolio, the Investment Advisor will use the value style of portfolio management which it uses to manage the Saxon Mutual Funds. The Saxon style of value management emphasizes low portfolio turnover, broad diversification among industry sectors and a significant bias in security selection towards statistically inexpensive securities as well as securities in out of favour industry categories. The Investment Advisor's value style of investing in the small cap sector of the Canadian equity market is applicable to its management of the Ongoing Business Trust Portfolio and the Resource and Real Estate Portfolio, since most Canadian publicly traded income trusts have market capitalizations of less than \$500 million and, in the case of ongoing business income trusts, the underlying operating businesses are similar to those of traditional small cap issuers. The Investment Advisor attributes its success in managing both the Saxon High Income Fund and the Saxon Small Cap to this approach.

In managing both the Ongoing Business Trust Portfolio and the Resource and Real Estate Portfolio, the Investment Advisor will emphasize the following factors in security selection:

- (i) The income trust's competitive position within its industry and its ability to grow either internally or through acquisition. This would include the ability to increase production and revenue without incurring substantial capital expenditures. Greater emphasis will be placed on income trusts which have long term sustainable business models rather than income trusts holding depleting assets.
- (ii) The income trust's financial structure including debt/equity levels.
- (iii) The level of the income trust's distributions compared with the underlying distributable cash flow after deducting a charge for maintenance capital expenditures.
- (iv) The market valuation of the income trust compared with valuations of similar companies, either trading in the public markets or under private ownership.

For further information about the composition and the investment management of the Ongoing Business Trust Portfolio and the Resource and Real Estate Portfolio, see "The Ongoing Business Trust Portfolio" and the "The Resource and Real Estate Portfolio", respectively.

INVESTMENT GUIDELINES OF THE TRUST

The following sections "Investment Objectives and Strategy of the Trust" and "Investment Restrictions of the Trust" are referred to collectively in this prospectus as the Trust's "Investment Guidelines".

Investment Objectives and Strategy of the Trust

The Trust's investment objectives are to:

- (i) provide holders of Units ("Holders") with a stable stream of tax efficient monthly distributions consisting primarily of capital gains and return of capital targeted to be \$0.0666 per Unit (\$0.80 per annum to yield 8.00% on the subscription price of \$10.00 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 (\$10.00 per Unit) to Holders on or about the Termination Date.

The Investment Advisor, in its capacity as investment advisor to the Ongoing Business Trust, will actively manage the Ongoing Business Trust Portfolio. The Investment Advisor, in its capacity as investment advisor to the Trust, will also actively manage a diversified portfolio (the "Resource and Real Estate Portfolio") consisting

primarily of securities of Canadian publicly traded real estate investment trusts, oil and gas trusts and energy infrastructure funds. The Investment Advisor will allocate the assets of the Trust invested from time to time in: (i) the Common Share Portfolio (as defined below) which provides exposure to the return on the Ongoing Business Trust Portfolio by virtue of the Forward Agreement (as defined below); and (ii) the Resource and Real Estate Portfolio, on the basis of the anticipated after-tax returns to Holders that each investment is expected to yield. The Investment Advisor anticipates that at least 50% of the Trust's assets will, at all times, be invested to provide exposure to the returns on securities of ongoing business income trusts.

To provide the Trust with the means to meet its investment objectives, the Trust will: (i) invest a portion of the net proceeds of the Offering in a portfolio of common shares of Canadian public companies (the "Common Share Portfolio") in respect of which the Trust will then enter into one or more forward purchase and sale agreements (collectively, the "Forward Agreement") with TD Global Finance ("TDGF"), a member of the TD Bank Financial Group, and/or Royal Bank of Canada ("RBC") and/or Canadian Imperial Bank of Commerce ("CIBC"), (TDGF and/or RBC and/or CIBC hereinafter collectively referred to as the "Counterparties") pursuant to which the Counterparties will agree to pay to the Trust on or about the Termination Date as the purchase price for the Common Share Portfolio an amount equal to 100% of the redemption proceeds of a corresponding number of units of the Ongoing Business Trust (as defined below) and (ii) invest the balance of the net proceeds of the Offering in the Resource and Real Estate Portfolio. The obligations of TDGF under the Forward Agreement will be guaranteed by The Toronto-Dominion Bank, TD Securities Inc. ("TDSI") and RBC Dominion Securities Inc. ("RBC DS") and CIBC World Markets Inc. are affiliates of TDGF, RBC and CIBC respectively, and are also Agents for the Offering. The long-term debt of the Counterparties or any guarantor will be rated at least A by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. or have an equivalent rating from Dominion Bond Rating Service Limited or other "approved credit rating organization" as defined in NI 81-102.

The Investment Advisor may, on behalf of the Trust, settle all or part of the Forward Agreement prior to the Termination Date and invest the net proceeds (after any distributions to Holders necessary to ensure that the Trust is not liable for income tax) in additional investments for the Resource and Real Estate Portfolio. Similarly, the Investment Advisor may, on behalf of the Trust, dispose of securities in the Resource and Real Estate Portfolio, invest the net proceeds (after any distributions to Holders necessary to ensure that the Trust is not liable for income tax) in the Common Share Portfolio and adjust the Forward Agreement or enter into new Forward Agreements to provide additional exposure to the Ongoing Business Trust Portfolio. In addition, the Trust may settle all or part of the Forward Agreement prior to the Termination Date to the extent necessary to fund monthly distributions, redemptions of Units by Holders from time to time, payment for purchases of Units in the market and expenses of the Trust.

The Trust's distributions are intended to benefit Holders as returns of capital are generally not subject to tax (as returns of capital reduce the adjusted cost base of Units) and distributions that are designated as capital gains will generally be taxed at a lower rate than distributions of interest, dividend and/or other investment income. Accordingly, Units are intended to be tax efficient when compared to units of a trust that depends solely on such other sources of income to pay distributions. See "Canadian Federal Income Tax Considerations".

The return to the Holders and the Trust will be dependent upon the return on the Ongoing Business Trust Portfolio by virtue of the Forward Agreement and upon the return on the Resource and Real Estate Portfolio. By giving Holders access to such returns, the Trust provides Holders with a conservative investment vehicle by taking advantage of the diversification benefits offered by the rapidly expanding income trusts sector. However, neither the Trust nor the Holders will have any ownership interest in the Ongoing Business Trust or the Ongoing Business Trust Portfolio.

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 of the Trust

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

- (i) **Investment in Canadian Equities.** In respect of the Common Share Portfolio, the Trust will restrict its investments in equity securities to common shares of Canadian public companies that are “Canadian securities” for the purposes of the *Income Tax Act* (Canada).
- (ii) **Market Capitalization.** In respect of the Resource and Real Estate Portfolio, the Trust will not invest in an issuer unless it has a market capitalization of at least \$50 million at the time of investment.
- (iii) **Concentration.** The Trust will restrict its investments in any one issuer to not more than 10% of its total assets at the time of investment in such issuer. In addition, the Trust will not own more than 5% of any class of securities of any one issuer at the time of investment in such issuer.
- (iv) **Foreign Currency.** The Trust will not invest more than 10% of its total assets at the time of investment in securities denominated in currencies other than Canadian dollars.
- (v) **Foreign Property.** The Trust will not make or retain investments that, for purposes of Part XI of the *Income Tax Act* (Canada), would render the Units “foreign property” for purposes of Part XI of the *Income Tax Act* (Canada)).
- (vi) **Leverage.** The Trust will not borrow money, except that the Investment Advisor on behalf of the Trust may borrow up to 25% of the total assets of the Trust, determined at the time of borrowing, pursuant to the Loan Facility (described below), provided that the cost of borrowing under the Loan Facility is at least 4% less than the average annualized trailing 12 month yield of the securities included in the Resource and Real Estate Portfolio, as determined at the time of borrowing. See “Investment Guidelines of the Trust — Loan Facility”;
- (vii) **Mutual Fund Trust.** The Trust shall manage its investments and affairs to ensure that it will be a “unit trust” for purposes of the *Income Tax Act* (Canada). Accordingly, the Trust’s undertaking is restricted to (a) investing of its funds in property (other than real property or interests in real property), (b) the acquiring and holding of beneficial interests in real property in the form of investments in real estate investment trusts that are capital property to the Trust, and (c) any combination of the activities described in (a) and (b); and
- (viii) **Non-Resident Entities.** The Trust will not invest in the securities of any non-resident corporation or trust or other non-resident entity if the Trust would be required to mark its investment in such securities to market in accordance with proposed section 94.2 of the *Income Tax Act* (Canada) or to include any significant amount in income pursuant to proposed section 94.1 of the *Income Tax Act* (Canada), as set forth in the proposed amendments to the *Income Tax Act* (Canada) dealing with foreign investment entities released on October 11, 2002 (or amendments to such proposals, provisions as enacted into law or successor provisions thereto).

The Trust will enter into the Forward Agreement as described under “Management of the Trust — Forward Agreement”. The Trust may also hold cash equivalents, from time to time. In addition, but subject to these investment restrictions, the Trust has adopted in connection with the Common Share Portfolio and the Resource and Real Estate Portfolio, the standard investment restrictions and practices set forth in NI 81-102. A copy of such standard investment restrictions and practices will be provided by the Manager to any person on request.

Loan Facility

In order to provide the Investment Advisor with a prudent level of leverage to enhance returns on the Resource and Real Estate Portfolio, the Trust may borrow pursuant to a loan facility (the “Loan Facility”) from a financial institution (the “Lender”). The Trustee, in its capacity as trustee of the Trust, may enter into the Loan Facility with the Lender, on behalf of the Trust, prior to or shortly after the closing of the Offering. The Manager expects that the terms, conditions, interest rates, fees and expenses of and under any Loan Facility would be typical for loans of this nature.

The Loan Facility will permit the Investment Advisor, on behalf of the Trust, to borrow monies to purchase additional securities for the Resource and Real Estate Portfolio in accordance with the Trust's Investment Guidelines. The Investment Advisor, on behalf of the Trust, intends to use the Loan Facility, 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 Resource and Real Estate Portfolio and the cost of borrowing the purchase price for such investments. The use of leverage to enhance returns on the Resource and Real Estate Portfolio may result in capital losses or a decrease in net cash distributions to Holders. It may also require liquidation of investments at times which are unfavourable to the Trust in order to comply with the terms of the Loan Facility. The Manager anticipates that the Lender will require the Trust to provide a security interest in some or all of the Resource and Real Estate Portfolio securities in favour of the Lender to secure such borrowings. The Manager, in its capacity as manager of the Trust, will ensure that, in the event of default under the Loan Facility, the Lender's recourse will be limited to the Resource and Real Estate Portfolio securities.

The Loan Facility may be drawn down following the closing of the Offering in an aggregate amount not to exceed 25% of the total assets of the Resource and Real Estate Portfolio, determined at the time of borrowing, provided that the cost of borrowing under the Loan Facility is at least 4% less than the average annualized trailing 12 month yield of the income trusts included in the Resource and Real Estate Portfolio, as determined at the time of borrowing.

Other than borrowings by the Trust under the Loan Facility of up to 25% of the total assets of the Resource and Real Estate Portfolio, determined at the time of borrowing, and short-term credits necessary for settlement of securities transactions, which are not considered borrowing, the Trust will not engage in borrowing.

Securities Lending

In order to generate additional returns, the Trust may lend Common Share Portfolio securities to securities borrowers acceptable to the Trust pursuant to the terms of a securities lending agreement between the Trust and any such borrower (each, a "Securities Lending Agreement"). Under a Securities Lending Agreement: (i) the borrower will pay to the Trust a negotiated securities lending fee and will make compensation payments to the Trust equal to any distributions received by the borrower on the securities borrowed; (ii) the securities loans must qualify as "securities lending arrangements" for the purposes of the *Income Tax Act* (Canada); and (iii) the Trust will receive prescribed collateral security which it may pledge as security under the Forward Agreement. The minimum level of collateralization in respect of a loan of Common Share Portfolio securities will be 105%. Except as provided above, the Trust has adopted the provisions of NI 81-102 with respect to the lending of portfolio securities.

INVESTMENT GUIDELINES OF THE ONGOING BUSINESS TRUST

The following sections "Investment Criteria of the Ongoing Business Trust" and "Investment Restrictions of the Ongoing Business Trust" are referred to collectively in this prospectus as the Ongoing Business Trust's "Investment Guidelines".

Investment Criteria of the Ongoing Business Trust

The investment criteria of the Ongoing Business Trust provide that the trust may purchase securities of Canadian publicly traded ongoing business income trusts and, to a lesser extent, securities of other types of Canadian publicly traded income trusts, such as oil and gas trusts, real estate investment trusts and energy infrastructure funds for the Ongoing Business Trust Portfolio. In addition, in connection with the acquisition or disposition of securities of income trusts, the Ongoing Business Trust may also hold cash or cash equivalents including indebtedness that has a remaining term to maturity of less than one year and that is issued or fully guaranteed by the government of Canada or of a jurisdiction thereof, the government of the United States and of certain other foreign countries having an approved credit rating for the purposes of NI 81-102 and certain Canadian or foreign financial institutions rated as short term debt and having an approved credit rating for the purposes of NI 81-102.

The Investment Advisor is expected to purchase securities for the Ongoing Business Trust Portfolio in the open market and such securities may or may not include securities in which the Agents have participated in the distribution.

Investment Restrictions of the Ongoing Business Trust

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

- (i) **Market Capitalization.** The Ongoing Business Trust will not invest in an issuer unless it has a market capitalization of at least \$50 million at the time of investment.
- (ii) **Concentration.** The Ongoing Business Trust will restrict its investments in any one issuer to not more than 10% of its total assets at the time of investment in such issuer. In addition, the Ongoing Business Trust will not own more than 5% of any class of securities of any one issuer at the time of investment in such issuer.
- (iii) **Foreign Currency.** The Ongoing Business Trust will not invest more than 10% of its total assets at the time of investment in securities denominated in currencies other than Canadian dollars.
- (iv) **Foreign Issuers.** The Ongoing Business Trust will not invest in the securities of any foreign issuer if distributions to the Trust from such issuer would be subject to foreign taxes.
- (v) **Leverage.** The Ongoing Business Trust will not borrow money, except that the Investment Advisor on behalf of the Ongoing Business Trust may borrow up to 25% of the total assets of the Ongoing Business Trust, determined at the time of borrowing, pursuant to the Ongoing Business Trust Loan Facility (described below), provided that the cost of borrowing under the Ongoing Business Trust Loan Facility is at least 4% less than the average annualized trailing 12 month yield of the income trusts included in the Ongoing Business Trust Portfolio, as determined at the time of borrowing. See “Investment Guidelines of the Ongoing Business Trust — Ongoing Business Trust Loan Facility”.

In addition, the Investment Advisor has adopted, in connection with the Ongoing Business Trust Portfolio, the standard investment restrictions and practices set forth in NI 81-102 with certain exceptions. A copy of such standard investment restrictions and practices will be provided by the Investment Advisor to any person on request.

Ongoing Business Trust Loan Facility

In order to provide the Investment Advisor with a prudent level of leverage to enhance returns on the Ongoing Business Trust Portfolio, the Ongoing Business Trust may borrow pursuant to a loan facility (the “Ongoing Business Trust Loan Facility”) from a financial institution (the “Lender”). The Trustee, in its capacity as trustee of the Ongoing Business Trust, may enter into the Ongoing Business Trust Loan Facility with the Lender, on behalf of the Ongoing Business Trust, prior to or shortly after the closing of the Offering. The Manager expects that the terms, conditions, interest rates, fees and expenses of and under any Ongoing Business Trust Loan Facility would be typical for loans of this nature.

The Ongoing Business Trust Loan Facility will permit the Investment Advisor, on behalf of the Ongoing Business Trust, to borrow monies to purchase additional securities for the Ongoing Business Trust Portfolio in accordance with the investment restrictions relating to the Ongoing Business Trust. The Investment Advisor, on behalf of the Ongoing Business Trust, intends to use the Ongoing Business Trust Loan Facility, when market conditions are appropriate, to attempt to increase the potential returns of the Ongoing Business Trust by taking advantage of the spread between the potential return on additional investments in the Ongoing Business Trust Portfolio and the cost of borrowing the purchase price for such investments. The use of leverage to enhance returns on the Ongoing Business Trust Portfolio may result in capital losses or a decrease in net cash distributions to the Ongoing Business Trust’s unitholders and ultimately, by virtue of the Forward Agreement, to Holders. It may also require liquidation of investments at times which are unfavourable to the Ongoing Business Trust in order to comply with the terms of the Ongoing Business Trust Loan Facility. The Manager anticipates that the Lender will require the Ongoing Business Trust to provide a security interest in some or all of its assets

in favour of the Lender to secure such borrowings. The Manager, in its capacity as manager of the Ongoing Business Trust, will ensure that, in the event of default under the Ongoing Business Trust Loan Facility, the Lender's recourse will be limited to the assets of the Ongoing Business Trust.

The Ongoing Business Trust Loan Facility may be drawn down following the closing of the Offering in an aggregate amount not to exceed 25% of the total assets of the Ongoing Business Trust, determined at the time of borrowing, provided that the cost of borrowing under the Ongoing Business Trust Loan Facility is at least 4% less than the average annualized trailing 12 month yield of the income trusts included in the Ongoing Business Trust Portfolio, as determined at the time of borrowing.

Other than borrowings by the Ongoing Business Trust under the Ongoing Business Trust Loan Facility of up to 25% of the total assets of the Ongoing Business Trust, determined at the time of borrowing, and short-term credits necessary for settlement of securities transactions, which are not considered borrowing, the Ongoing Business Trust will not engage in borrowing.

INCOME TRUST SECURITIES

Overview of Income Trusts

Income trusts are trusts generally structured to own debt and equity of an underlying company, or a royalty in revenues generated by the assets thereof, which carries on an active business. The income trust structure was developed to facilitate distributions to investors on a tax efficient basis. An income trust can generally avoid paying tax by allocating all of its taxable income to unitholders, thus avoiding a layer of taxation associated with corporate entities. The income trust structure is typically adopted by businesses that require a limited amount of capital in maintaining their property, plant and equipment and generate stable cash flows. Although most income funds are established as trusts, others are established as limited partnerships.

Since distributions to unitholders of income trusts are derived from the operation of an underlying business, many with additional growth potential, the projected life of distributions and the sustainability of distribution levels tend to vary with the nature of the business underlying the income trust. Generally, the income trust acquires equity and debt securities of an operating corporation with the proceeds of the issue of trust units. The operating corporation typically distributes all, or substantially all of the excess cash flow from its assets to the income trust by means of dividends, interest and repayments of debt principal.

The variety of businesses upon which income trusts have been created has become broad, both in the nature of the underlying industry and assets and in geographic location. Most income trusts may be characterized within one of the following four broad categories: ongoing business income trusts, real estate investment trusts, oil and gas trusts and energy infrastructure funds (including power generation funds and pipeline energy distribution funds).

Investor demand for these financings is generally attributed to the following: (i) the expected yield from cash distributions compares favourably with many fixed income investment alternatives; and (ii) the performance of Canadian equity markets has been negative and volatile over the past two years and, as a result, income trusts are attractive due to their relatively high levels of cash distributions.

The increased use of the income trust structure can also be attributed to the fact that: (i) it may enable a corporation to realize a better price for a business that it wishes to dispose of than could be achieved from a divestiture; and (ii) it provides businesses with an after-tax cost of capital that is attractive relative to a corporation that pays income tax and capital tax.

THE ONGOING BUSINESS TRUST PORTFOLIO

The Ongoing Business Trust Portfolio will consist primarily of a diversified portfolio of securities of Canadian publicly traded ongoing business income trusts and, to a lesser extent, securities of other types of Canadian publicly traded income trusts such as oil and gas trusts, real estate investment trusts ("REITs"), and energy infrastructure funds. Such securities may include, but are not limited to, trust units, limited partnership units and convertible debentures. The Investment Advisor will select, monitor and actively manage the Ongoing Business Trust Portfolio for the Ongoing Business Trust using a value style of portfolio management and subject

to the Investment Guidelines relating thereto. The income trusts included in the Ongoing Business Trust Portfolio will be selected by the Investment Advisor in its discretion, taking into account various criteria, in particular those factors described under “The Investment Advisor — The Investment Advisor’s Investment Approach”.

Initially, the Investment Advisor anticipates that 60% to 70% of the net proceeds of the Offering will be invested to provide exposure to the return on the Ongoing Business Trust Portfolio by virtue of the Forward Agreement, and the balance of the net proceeds will be invested in the Resource and Real Estate Portfolio. The proportion of the assets of the Trust invested to provide exposure to the return on the Ongoing Business Trust Portfolio will vary from time to time based on the Investment Advisor’s assessment of the appropriate strategy and market conditions and outlook. The Investment Advisor may, at any time, dispose of securities held in the Resource and Real Estate Portfolio and invest the net proceeds (after any distributions to Holders necessary to ensure that the Trust is not subject to income tax) in the Common Share Portfolio in which case the Forward Agreement will be adjusted or new forward purchase and sale agreements with the Counterparties will be entered into. The Investment Advisor, on behalf of the Trust, may settle all or part of the Forward Agreement prior to the Termination Date and invest the net proceeds (after any distributions to Holders necessary to ensure that the Trust is not subject to income tax) in additional investments for the Resource and Real Estate Portfolio. Increases or decreases in the assets of the Trust invested in the Common Share Portfolio, accompanied by changes in the Forward Agreement or the entering into of new forward purchase and sale agreements with the Counterparties, will result in changes in the amount of assets invested in the Ongoing Business Trust Portfolio. However, the Investment Advisor anticipates that at least 50% of the Trust’s assets will, at all times, be invested to provide exposure to the returns on securities of ongoing business income trusts.

All figures in this section “The Ongoing Business Trust Portfolio” are computed and compiled from information provided by one or more of the following sources: Bloomberg, the latest publicly available financial statements of the income trusts, the prospectuses of the income trusts and the Income Trust Daily Valuation Report prepared by CIBC World Markets Inc.

Targeted Ranges

The Investment Advisor contemplates that the Ongoing Business Trust Portfolio will initially comprise securities of the types of income trusts and in the amounts of the targeted ranges shown in the table below:

Ongoing Business Trust Portfolio

<u>Type of Income Trust</u>	<u>Initial Targeted Ranges</u>
Ongoing Business Income Trusts	70% to 80%
Oil and Gas Trusts	10% to 20%
REITs	0% to 10%
Energy Infrastructure Funds	0% to 10%

The actual composition of the Ongoing Business Trust Portfolio may vary from the targeted ranges shown in the table based on the Investment Advisor’s assessment of market conditions and the availability of income trust securities at the time of investment.

Ongoing Business Income Trusts

The businesses underlying ongoing business income trusts are typically mature businesses with long life assets, stable cash flows, stable operating histories and they may have significant internal growth prospects. The range of businesses that have been established as ongoing business income trusts is diverse and encompasses many industries, such as: food manufacturing and retailing (e.g., fast food, sardines, sugar), commercial manufacturing (e.g., ice cubes, mattresses, peat moss, cheque printing), storage and distribution (e.g., cold storage, port terminals), waste disposal and recycling (e.g., chemical waste), customs brokerage and trade-related services, retail sales and energy distribution and related support services (e.g., natural gas marketing, propane marketing) and forestry and mining.

In recent years, particularly in the past few months, the Canadian capital markets have supported the launch of many ongoing businesses structured as income trusts. As at October 18, 2002, a total of 49 ongoing business income trusts were listed for trading on the Toronto Stock Exchange, of which 25 had completed initial public offerings in the previous 12 months. Based upon publicly available information as at October 18, 2002, ongoing business income trusts with a combined market capitalization of approximately \$17.1 billion existed in Canada, with annualized pre-tax cash-on-cash yields ranging from 5.29% to 17.78%. It is anticipated that the number of ongoing business income trusts will continue to increase over the near term.

The following is a representative list of publicly traded ongoing business income trusts in Canada that could form part of the Ongoing Business Trust Portfolio. As at October 18, 2002, units of the ongoing business income trusts listed in the following table had an average 12 month yield of approximately 10.17%.

Representative Ongoing Business Income Trusts

<u>Trust Name</u>	<u>Unit Price⁽¹⁾</u>	<u>Market Capitalization⁽²⁾</u>	<u>Current Yield⁽³⁾</u>
		\$mm	
Advanced Fiber Technologies (AFT) Income Fund	\$10.50	137.4	11.43%
Atlas Cold Storage Income Trust	\$11.59	587.6	7.94%
Bell Nordiq Income Fund	\$10.45	931.1	8.61%
BFI Canada Income Fund	\$11.52	305.3	10.42%
Boston Pizza Royalties Income Fund	\$10.30	79.2	9.70%
Canadian Oil Sands Trust	\$37.80	2,162.2	5.29%
CCS Income Trust	\$17.25	396.8	9.74%
Chemtrade Logistics Income Fund	\$14.87	193.6	8.07%
Clearwater Seafoods Income Fund	\$10.41	486.1	11.04%
Connors Bros. Income Fund	\$13.25	205.9	9.06%
Contrans Income Fund	\$ 9.25	219.2	13.52%
Davis + Henderson Income Fund	\$12.20	462.6	10.99%
Gaz Metropolitan and Company, Limited Partnership	\$18.20	2,010.5	7.03%
General Donlee Income Fund	\$ 9.89	88.0	14.46%
Halterm Income Fund	\$ 8.68	70.1	11.23%
Heating Oil Partners Income Fund	\$12.45	224.1	11.25%
Home Equity Income Trust	\$11.09	106.8	9.36%
IAT Air Cargo Facilities Income Fund	\$10.51	69.4	10.73%
KCP Income Fund	\$11.69	375.2	11.65%
Keg Royalties Income Fund	\$ 9.84	122.0	10.98%
Labrador Iron Ore Royalty Income Trust	\$13.53	405.9	7.39%
Livingston International Income Fund	\$11.40	172.2	10.63%
Menu Foods Income Fund	\$13.90	354.5	8.45%
Noranda Income Fund	\$ 9.80	490.0	10.20%
North West Company Fund	\$20.00	322.0	7.50%
Oceanex Income Fund	\$12.31	107.4	9.13%
Parkland Income Fund	\$11.59	140.2	14.50%
PBB Global Logistics Income Fund	\$10.76	62.4	13.94%
PRT Forest Regeneration Income Fund	\$ 9.85	71.9	8.98%
Rogers Sugar Income Fund	\$ 4.80	369.6	10.00%
SCI Income Trust	\$11.50	88.6	10.43%
SFK Pulp Fund	\$11.15	660.6	10.76%
Sun Gro Horticulture Income Fund	\$11.07	243.8	10.61%
Superior Propane Income Fund	\$20.10	932.6	8.54%
Swiss Water Decaffeinated Coffee Income Fund	\$11.00	60.0	11.84%
Taylor NGL Limited Partnership	\$ 4.44	43.2	9.01%

<u>Trust Name</u>	<u>Unit Price⁽¹⁾</u>	<u>Market Capitalization⁽²⁾</u>	<u>Current Yield⁽³⁾</u>
		\$mm	
TimberWest Forest Corp.	\$12.10	918.4	8.90%
TransForce Income Fund	\$ 8.14	520.1	N/A
Versacold Income Fund	\$ 8.35	161.3	11.14%
Westshore Terminals Income Fund	\$ 5.20	366.0	12.31%

Notes:

- (1) Closing market price per unit on October 18, 2002.
- (2) Market capitalization is calculated by multiplying the unit price at October 18, 2002 by the most recently disclosed number of units outstanding.
- (3) The Current Yield for each issuer is the pre-tax cash-on-cash yield calculated using the most recently reported monthly or quarterly per unit distribution for that issuer multiplied by 12 in the case of issuers that make monthly distributions and by four in the case of issuers that make quarterly distributions and divided by the closing price per unit of such issuer on October 18, 2002.

For information about REITs, oil and gas trusts and energy infrastructure funds, see “Real Estate Investment Trusts”, “Oil and Gas Trusts” and “Energy Infrastructure Funds” under “The Resource and Real Estate Portfolio” below.

THE RESOURCE AND REAL ESTATE PORTFOLIO

The Resource and Real Estate Portfolio will consist primarily of a diversified portfolio of securities of Canadian publicly traded REITs, oil and gas trusts and energy infrastructure funds and, to a lesser extent, securities of other types of Canadian publicly traded income trusts. Such securities may include, but are not limited to, trust units, limited partnership units and convertible debentures. The Investment Advisor will select, monitor and actively manage the Resource and Real Estate Portfolio using a value style of management and subject to the Investment Guidelines relating to the Trust and applicable to the Resource and Real Estate Portfolio. The income trusts included in the Resource and Real Estate Portfolio will be selected by the Investment Advisor in its discretion, taking into account various criteria, in particular those factors described under “The Investment Advisor — The Investment Advisor’s Investment Approach”.

Initially, the Investment Advisor anticipates that 30% to 40% of the net proceeds of the Offering will be invested in the Resource and Real Estate Portfolio and the balance of the net proceeds will be invested to provide exposure to the return on the Ongoing Business Trust Portfolio. See “The Ongoing Business Trust Portfolio” for a description of the manner in which the Investment Advisor may vary the proportion of the assets of the Trust which are invested in the Resource and Real Estate Portfolio and which are invested to provide exposure to the return on the Ongoing Business Trust Portfolio.

All figures in this section “The Resource and Real Estate Portfolio” are computed and compiled from information provided by one or more of the following sources: Bloomberg, the latest publicly available financial statements of the income trusts, the prospectuses of the income trusts and the Income Trust Daily Valuation Report prepared by CIBC World Markets Inc.

Targeted Ranges

The Investment Advisor contemplates that the Resource and Real Estate Portfolio will initially comprise securities of the types of income trusts and in the amounts of the targeted ranges shown in the table below:

Resource and Real Estate Portfolio

<u>Type of Income Trust</u>	<u>Initial Targeted Ranges</u>
REITs	80% to 90%
Oil and Gas Trusts	10% to 20%
Energy Infrastructure Funds	0% to 10%
Ongoing Business Income Trusts	0% to 10%

The actual composition of the Resource and Real Estate Portfolio may vary from the targeted ranges shown in the table based on the Investment Advisor’s assessment of market conditions and the availability of income trust securities at the time of investment.

Real Estate Investment Trusts

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

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

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

Based on publicly available information, as at October 18, 2002, REITs in Canada had an aggregate market capitalization of approximately \$8.8 billion. The following is a representative list of publicly traded REITs in Canada that could form part of the Resource and Real Estate Portfolio. As at October 18, 2002, units of REITs listed in the following table had an average 12 month yield of approximately 9.70%.

Representative REITs

<u>Trust Name</u>	<u>Unit Price⁽¹⁾</u>	<u>Market Capitalization⁽²⁾</u>	<u>Current Yield⁽³⁾</u>
		\$mm	
Canadian Apartment Properties REIT	\$13.40	376.9	7.84%
Canadian Hotel Income Properties REIT	\$ 9.26	357.4	9.72%
Canadian REIT	\$12.76	608.7	9.40%
Cominar REIT	\$11.50	297.9	9.39%
H&R REIT	\$13.70	967.2	8.93%
InnVest REIT	\$ 9.51	397.5	11.83%
Legacy Hotels REIT	\$ 7.68	645.1	9.64%
Morguard REIT	\$ 8.60	381.0	10.47%
Northern Property REIT	\$12.45	123.3	9.23%
O&Y REIT	\$10.08	356.8	10.62%
Residential Equities REIT	\$13.50	359.1	7.78%
Retirement Residences REIT	\$12.55	953.8	9.17%
RioCan REIT	\$12.25	1,933.1	9.06%
Royal Host REIT	\$ 5.72	140.7	12.59%
Summit REIT	\$15.46	691.1	9.90%

Notes:

- (1) Closing market price per unit on October 18, 2002.
- (2) Market capitalization is calculated by multiplying the unit price at October 18, 2002 by the most recently disclosed number of units outstanding.
- (3) The Current Yield for each issuer is the pre-tax cash-on-cash yield calculated using the most recently reported monthly or quarterly per unit distribution for that issuer multiplied by 12 in the case of issuers that make monthly distributions and by four in the case of issuers that make quarterly distributions and divided by the closing price per unit of such issuer on October 18, 2002.

Oil and Gas Trusts

Oil and gas trusts are income trusts where the principal underlying business is the exploitation, production and sale of oil and gas products. These trusts pay out to unitholders a high percentage of the cash flow that they

receive from the production and sale of underlying crude oil and natural gas reserves. The amount of distributions paid on an oil and gas trust's units will vary from time to time based on production levels, commodity prices, royalty rates and certain expenses, deductions and costs. As a result of distributing a large percentage of their cash flow to unitholders, oil and gas trusts are generally precluded from internally originating new oil and gas prospects. Therefore, oil and gas trusts typically grow through acquisition of producing companies or those with proven reserves of oil and gas, funded through the issuance of additional equity or, where the trust is able, additional debt. Consequently, oil and gas trusts are considered to be less exposed to the uncertainties faced by a traditional oil and gas exploration and production corporation. However, they are still exposed to commodity risk and reserve risk, as well as operating risk.

Based on publicly available information, as at October 18, 2002, oil and gas trusts in Canada had an aggregate market capitalization of approximately \$10.0 billion. The following is a representative list of publicly traded oil and gas trusts in Canada that could form part of the Resource and Real Estate Portfolio. As at October 18, 2002, units of the oil and gas trusts listed in the following table had an average 12 month yield of approximately 15.11%.

Representative Oil and Gas Trusts

<u>Trust Name</u>	<u>Unit Price⁽¹⁾</u>	<u>Market Capitalization⁽²⁾</u>	<u>Current Yield⁽³⁾</u>
		\$mm	
Advantage Energy Income Fund	\$13.30	360.4	16.24%
APF Energy Trust	\$10.53	234.8	17.09%
Enerplus Resources Fund	\$28.24	2,109.5	12.75%
Focus Energy Trust	\$10.35	296.0	12.75%
Freehold Royalty Trust	\$10.90	329.2	11.01%
NAL Oil & Gas Trust	\$10.10	334.3	15.45%
Pengrowth Energy Trust	\$14.38	1,298.5	14.19%
Provident Energy Trust	\$10.80	396.4	20.00%
Shiningbank Energy Income Fund	\$14.60	483.3	14.25%
Ultima Energy Trust	\$ 5.82	138.5	16.49%
Viking Energy Royalty Trust	\$ 7.50	406.5	16.00%

Notes:

- (1) Closing market price per unit on October 18, 2002.
- (2) Market capitalization is calculated by multiplying the unit price at October 18, 2002 by the most recently disclosed number of units outstanding.
- (3) The Current Yield for each issuer is the pre-tax cash-on-cash yield calculated using the most recently reported monthly or quarterly per unit distribution for that issuer multiplied by 12 in the case of issuers that make monthly distributions and by four in the case of issuers that make quarterly distributions and divided by the closing price per unit of such issuer on October 18, 2002.

Energy Infrastructure Funds

Energy infrastructure funds are similar to ongoing business income trusts with the principal underlying business being power generation and pipelines.

Based on publicly available information, as at October 18, 2002, energy infrastructure funds in Canada had an aggregate market capitalization of approximately \$6.6 billion. The following is a representative list of publicly traded energy infrastructure funds in Canada that could form part of the Resource and Real Estate Portfolio. As at October 18, 2002, units of the energy infrastructure funds listed in the following table had an average 12 month yield of approximately 8.74%.

Representative Energy Infrastructure Funds

<u>Trust Name</u>	<u>Unit Price</u> ⁽¹⁾	<u>Market Capitalization</u> ⁽²⁾	<u>Current Yield</u> ⁽³⁾
		\$mm	
Algonquin Power Income Fund	\$ 9.90	672.1	9.29%
Boralex Power Income Fund	\$10.63	431.2	8.23%
Calpine Power Income Fund	\$ 9.98	519.0	9.44%
Clean Power Income Fund	\$10.19	216.0	9.08%
Fort Chicago Energy Partners L.P.	\$ 8.05	592.2	7.95%
Great Lakes Hydro Income Fund	\$14.99	724.0	8.01%
Koch Pipelines Canada, L.P.	\$ 6.55	479.5	10.38%
Northland Power Income Fund	\$11.15	343.4	8.61%
Pembina Pipeline Income Fund	\$11.49	1,053.1	9.14%
TransAlta Power, L.P.	\$ 9.16	311.4	8.19%
TransCanada Power, L.P.	\$32.25	1,267.8	7.81%

Notes:

- (1) Closing market price per unit on October 18, 2002.
- (2) Market capitalization is calculated by multiplying the unit price at October 18, 2002 by the most recently disclosed number of units outstanding.
- (3) The Current Yield for each issuer is the pre-tax cash-on-cash yield calculated using the most recently reported monthly or quarterly per unit distribution for that issuer multiplied by 12 in the case of issuers that make monthly distributions and by four in the case of issuers that make quarterly distributions and divided by the closing price per unit of such issuer on October 18, 2002.

For information about ongoing business income trusts, see “The Ongoing Business Trust Portfolio — Ongoing Business Income Trusts” above.

MANAGEMENT OF THE TRUST

The Manager

The Manager is the manager of the Trust and will also act as the manager of the Ongoing Business Trust. 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, is the Manager of Skylon Capital Yield Trust, which provides investors with exposure to the return on high yield debt securities, Skylon Global Capital Yield Trust, which provides investors with exposure to the return on global high yield investments, and the VentureLink Group of Funds which currently include: 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.

Forward Agreement

Upon or within 30 days of the closing of the Offering, the Trust will enter into the Forward Agreement, which is intended to provide the Trust with a payment on or about the Termination Date of an amount equal to the cash amount paid by the Ongoing Business Trust to holders of a corresponding number of units of the Ongoing Business Trust upon termination of the Ongoing Business Trust in exchange for the Common Share Portfolio. Amounts paid by the Ongoing Business Trust to its unitholders will be funded by the net realized proceeds of disposition of the Ongoing Business Trust Portfolio (after satisfying its liabilities, if any). The expenses of the Ongoing Business Trust include the annual management fee payable to the Manager, in its capacity as manager of the Ongoing Business Trust. The Trust will not enter into the Forward Agreement unless the aggregate net asset value of the corresponding number of units of the Ongoing Business Trust that will

determine the purchase price of the Common Share Portfolio under the Forward Agreement will be, at the time the Ongoing Business Trust is capitalized, equal to or greater than the net asset value of the Common Share Portfolio at the time the Trust enters into the Forward Agreement. Initially, the “corresponding number” of units of the Ongoing Business Trust is that number of units of the Ongoing Business Trust having that value. The corresponding number of units may change prior to the Termination Date; for example, the number will be reduced if the Forward Agreement is partially settled to fund a redemption of Units.

Under the terms of the Forward Agreement, the Trust and the Counterparties have agreed that their settlement obligations under the Forward Agreement with respect to the Common Share Portfolio securities will be discharged, at the election of the Trust, either by physical delivery of the Common Share Portfolio securities by the Trust to the Counterparties against cash payment or by the making of a net cash payment to the appropriate party. If the Trust elects for physical delivery of the Common Share Portfolio under the Forward Agreement, the Counterparties will pay to the Trust on or about the Termination Date as the purchase price for the Common Share Portfolio an amount equal to the redemption proceeds for a corresponding number of units of the Ongoing Business Trust. Prior to the Termination Date, Common Share Portfolio securities or other acceptable securities will be pledged to and may be held by the Counterparties as security for the obligations of the Trust under the Forward Agreement.

To the extent necessary to permit the Trust to fund distributions as well as redemptions of Units by Holders from time to time, payment for purchases of Units in the market, investment of additional amounts in the Resource and Real Estate Portfolio and expenses of the Trust, the terms of the Forward Agreement will provide that all or part of the Forward Agreement may be settled prior to the Termination Date by the Trust tendering to the Counterparties securities of the Common Share Portfolio.

Under the Forward Agreement, the forward purchase price may be reduced for all dividends and distributions, including extraordinary distributions, declared and paid on the Common Share Portfolio securities paid to the Trust as owner of the Common Share Portfolio. In order to minimize the likelihood that such dividends or distributions will be paid, the Trust intends to acquire non-dividend paying common shares of Canadian public companies for the Common Share Portfolio. However, if any such dividends or distributions are to be received by the Trust, the Forward Agreement will provide that replacement securities acceptable to the Counterparties may, at the Trust’s option, be substituted for shares in respect of which the dividend or distribution has been declared prior to the record date for such dividend or distribution to preserve the value of the forward transaction. In the event that such replacement securities are not available, the Trust may consider contributing additional securities to the Common Share Portfolio or entering into additional forward, derivative or other transactions. The Forward Agreement will have similar provisions designed to avoid adjustments of the amount to be paid on or about the Termination Date which might otherwise be required if the Trust receives consideration as a consequence of a merger transaction involving any of the securities in the Common Share Portfolio.

The mark-to-market value of the Trust’s exposure under the Forward Agreement to any one counterparty may not exceed 30% of the Trust’s net assets for a period of more than 60 days. To ensure compliance with the exposure limit, the Trust may seek to amend the terms of the Forward Agreement by entering into forward or other derivative transactions with the Counterparties or one or more other counterparties in order to preserve the original objectives of the Forward Agreement. The Trust may agree to amend the existing forward arrangements to substitute replacement securities for shares subject to the Forward Agreement or the Trust may enter into additional forward transactions in respect of shares that the parties agree may be used in circumstances similar to the existing forward arrangements. If the Trust is not able to complete such actions on terms which preserve the original objectives of the Forward Agreement, the Forward Agreement may be settled in part in order to lower the mark-to-market value of the Trust’s exposure thereto.

The Forward Agreement may be terminated prior to the Termination Date in certain circumstances including: (i) at the option of the Trust in its sole discretion; (ii) by a Counterparty if that Counterparty determines in its sole discretion that it is unable to hedge its position under the Forward Agreement; or (iii) by the Counterparties if the Trust fails to pay the monthly fee under the Forward Agreement. The Trust may exercise its right to settle all or part of the Forward Agreement prior to the Termination Date to the extent necessary to permit the Trust to fund monthly distributions as well as redemptions of Units by Holders from time

to time, payment for purchases of Units in the market, investment of additional amounts in the Resource and Real Estate Portfolio and expenses of the Trust. See “Risk Factors”.

The obligations of the Counterparties to the Trust under the Forward Agreement will be determined by reference to the performance of the Ongoing Business Trust. The Counterparties may choose to enter into transactions in order to hedge their exposure under the terms of the Forward Agreement to the economic performance of the Ongoing Business Trust. There is no assurance that the Counterparties or their affiliates will maintain a hedge or will do so with respect to the full amount or term of the Forward Agreement. The Trust is exposed to the credit risk associated with the Counterparties and any guarantor in respect of the Forward Agreement.

Duties and Services to be Provided by the Manager

Pursuant to the Trust Agreement, 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 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 Trust Agreement.

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; preparing the Trust’s reports to Holders and to the Canadian Securities Administrators; providing the Trustee with information and reports necessary for it to fulfil its fiduciary responsibilities; administering the redemption of Units; administering the market purchases of Units; administering the Forward Agreement including partial or early settlement thereof; arranging for any payment required on or about the Termination Date; dealing and communicating with Holders; and negotiating contracts with third-party providers of services, including, but not limited to, investment advisors, 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 provide all administrative services required by the Trust. The Manager will be responsible for execution of the Trust’s investment strategy, which includes acquiring the Common Share Portfolio, entering into the Forward Agreement and managing the Resource and Real Estate Portfolio. The Manager will retain the Investment Advisor as investment advisor to the Trust to actively manage the Resource and Real Estate Portfolio. The Manager will also act as the manager of the Ongoing Business Trust and will retain the Investment Advisor as investment advisor to the Ongoing Business Trust to actively manage the Ongoing Business Trust Portfolio.

The Manager 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 Trust Agreement. The Manager may terminate each of the foregoing agreements upon notice.

The Manager is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Trust and the Holders and to exercise the care, diligence and skill of a prudent and qualified person in similar circumstances. The Trust Agreement provides that the Manager 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 Manager will incur liability, however, in cases of wilful misconduct, bad faith, negligence, disregard of the Manager’s standard of care or by any material breach or default by it of its obligations under the Trust Agreement.

Unless the Manager resigns or is removed as described below, the Manager will continue as manager until the termination of the Trust. The Manager may resign if the Trust is in breach or default of the provisions of the

Trust Agreement and, if capable of being cured, any such breach or default 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 of such breach or default to the Trust and the Manager is deemed to have resigned if the Manager becomes bankrupt or insolvent or in the event the Manager ceases to be resident in Canada for the purposes of the *Income Tax Act* (Canada). The Manager may not be removed by the Trustee other than by an Extraordinary Resolution (as defined under "Holder Matters — Meetings of Holders and Extraordinary Resolutions") of the Holders in the event that the Manager is in material breach or default (defaults under the Trust Agreement include, among other things, cases of wilful misconduct, bad faith, disregard of the Manager's standard of care or negligence) of the provisions of the Trust Agreement and, if capable of being cured, any such breach or default has not been cured within 20 Business Days' notice of such breach or default to the Manager, or if the Manager becomes bankrupt or insolvent.

In the event that the Manager resigns or is removed as provided above, the Trustee shall promptly appoint a successor manager to carry out the activities of the Manager until a meeting of the Holders is held to confirm such appointment by a majority of the votes cast. The removal or resignation of the Manager shall only become effective upon the appointment of a replacement manager. If within 90 days from the notice of resignation or removal of the Manager the Trustee has not appointed a replacement manager or a Holder has not applied to a court of competent jurisdiction for the appointment of a replacement manager, the Trust shall be terminated.

As compensation for management services rendered to the Trust, the Manager is entitled to receive (i) in respect of the Resource and Real Estate Portfolio, an annual management fee in an amount equal to 1.10% of the net asset value of the Resource and Real Estate Portfolio and (ii) in respect of management of the Trust's other assets, an annual management fee in an amount equal to 0.55% of the net asset value of the Trust's assets other than the Resource and Real Estate Portfolio, each such fee to be calculated and payable monthly in arrears, plus applicable taxes. As compensation for management services rendered to the Ongoing Business Trust, the Manager is entitled to receive an annual management fee in an amount equal to 0.55% of the net asset value of the Ongoing Business Trust calculated and payable monthly in arrears, plus applicable taxes. In addition, the Manager is entitled to receive an amount equal to the service fee (the "Service Fee") payable to registered dealers. The Manager, in its capacity as manager of the Trust, is responsible for payment of the investment management fees of the Investment Advisor.

In the event that the Trust does not distribute at least \$0.0666 per Unit in respect of any month commencing with the second month following the month in which closing of the Offering occurs, the aggregate management fees payable to the Manager, in its capacity as manager of the Trust, in respect of each subsequent month and the Service Fee payable to registered dealers in respect of each such subsequent month shall be reduced *pro rata* based on the amount by which the distribution in respect of the previous month is less than \$0.0666 per Unit, subject to a minimum monthly management fee of $\frac{1}{12}$ of 0.55% of the net asset value of the Resource and Real Estate Portfolio. Subject to the minimum fee described above, the management fees payable to the Manager in respect of the Resource and Real Estate Portfolio and in respect of the Trust's other assets shall be reduced in equal proportions. Regular monthly fees payable to the Manager and the Service Fee payable to registered dealers will resume in respect of the month (or, in the case of the Service Fee, the semi-annual period) for which the Trust distributes at least \$0.0666 per Unit. The amount by which such fees are reduced will not be recoverable by the Manager until such time as the corresponding distribution shortfall has been paid to the Holders and, on the Termination Date, will not be payable out of the assets of the Trust or the Ongoing Business Trust unless an amount equal to any remaining distribution shortfall plus the original subscription price is returned to the Holders. See "Fees and Expenses — Management Fees".

The Manager 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 Manager or any of its officers, directors or employees in the exercise of its duties as manager, except those resulting from such person's wilful misconduct, bad faith, negligence, disregard of such person's standard of care or material breach or default of duty to the Trust in relation to the matter in respect of which indemnification is claimed.

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 to assist the Manager in performing its services under the Trust Agreement. 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 \$125,000.

Philip Armstrong has been a leader in the Canadian financial services industry for over two decades. Most recently, from 1997 to 2000, Mr. Armstrong served as a Managing Director of Altamira Investment Services Inc. (“AISI”). Mr. Armstrong served as President 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 and AISI and he continues to serve as a Director of AISI. 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 board of Skylon Capital Yield Trust and Skylon Global Capital Yield 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 board of Skylon Capital Yield Trust and Skylon Global Capital Yield Trust.

Accounting and Reporting

The Trust’s fiscal year will be the calendar year or such other fiscal period permitted under the *Income Tax Act* (Canada) 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 Corp.
COLIN S. MERCIER Toronto, Ontario	President and Director	President of Skylon Capital Corp.
ANDREW A. MCKAY Bridgetown, Barbados	Chief Financial Officer and Director	Chief Operating Officer of Skylon Capital Corp.

<u>Name and Municipality</u>	<u>Position with the Manager</u>	<u>Principal Occupation</u>
GEOFFREY D. HORTON . Toronto, Ontario	Vice President	Vice President of the Manager
TIMOTHY J. DIAMOND . .	Managing Director and Director	Managing Director of Skylon Capital Corp.
SUSAN E. COLEMAN	Chief Investment Officer and Director	Chief Investment Officer of the Manager

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., 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 and a Director of the Manager and the Chief Operating 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 the 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 Capital Holdings Ltd. (“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 of the Manager and Skylon Capital, and is also 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.

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 in securities in the Common Share Portfolio or the Resource and Real Estate 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.

The Investment Advisor — Services to be Provided by the Investment Advisor

The Investment Advisor will provide investment advisory and portfolio management services to the Trust with respect to the Resource and Real Estate Portfolio pursuant to the terms of the Investment Advisory Agreement. Decisions as to the purchase and sale of Resource and Real Estate 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. Subject to the terms of the Investment Advisory Agreement and the investment restrictions applicable to the Trust, the Investment Advisor will select, monitor and manage the Resource and Real Estate Portfolio. See “The Resource and Real Estate Portfolio”.

The Manager, as manager of the Trust, is responsible for ensuring that the provisions of the Investment Advisory Agreement are consistent with the Investment Guidelines relating to the Trust and that such Investment Guidelines comply with applicable Canadian federal and provincial laws. The Manager is also responsible for analyzing all provisions of applicable Canadian federal and provincial laws and interpretations of such laws (and any changes thereto) referenced in the Investment Guidelines relating to the Trust and providing the Investment Advisor with specific investment parameters, including identification of permissible investments, that comply with such laws and interpretations. See “Investment Guidelines of the Trust — Investment Restrictions of the Trust”.

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 of the Trust. 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 which breach has or will have a material adverse effect on the Resource and Real Estate Portfolio (a “Material Breach”) and the Material Breach has not been cured within 20 Business Days’ notice thereof to the Investment Advisor; (iii) if, for any reason, Richard Howson ceases to be the portfolio manager of the Investment Advisor primarily responsible for the investment management of the Resource and Real Estate Portfolio; (iv) if there is a dissolution and commencement of winding-up of the Investment Advisor; (v) 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; (vi) if the assets of the Investment Advisor become subject to seizure or confiscation by any public or governmental organization; (vii) if the Investment Advisor has lost any registration, license or other authorization required by it to perform the services delegated to it hereunder; or (viii) 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 Resource and Real Estate 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 Resource and Real Estate 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 Resource and Real Estate 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 Resource and Real Estate 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, in the event: (i) the Trust is in material breach or default of the provisions thereof and, if capable of being cured, such material breach or default has not been cured within 20 Business Days' notice of such breach or default to the Manager, as manager of the Trust; (ii) there is a material change in the investment guidelines and restrictions relating to the Trust; (iii) if there is a dissolution and commencement of winding-up of the Trust; or (iv) 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 Trust, to act honestly and in good faith with a view to the best interests of the Holders and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent portfolio manager would exercise in comparable circumstances. The Investment 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 Resource and Real Estate 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 Resource and Real Estate Portfolio only, against all liabilities, losses and expenses incurred by any of them in connection with any matter relating to the Resource and Real Estate Portfolio, unless an Indemnified Person is finally adjudicated to have committed an act or omission involving wilful misconduct, bad faith or negligence.

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

The Manager, in its capacity as manager of the Trust, is responsible for the payment of the management fees of the Investment Advisor. See "Fees and Expenses — Management Fees".

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, at any time, engage in the promotion, management or investment management of any other fund or trust which invests primarily in securities in the Resource and Real Estate Portfolio, and provide similar services to other investment funds and other clients and engage in other activities. Investment decisions for the Resource and Real Estate Portfolio will be made independently of those made for other clients and independently of investments of the Investment Advisor. On occasion, however, the Investment Advisor may make the same investment for the Resource and Real Estate Portfolio and for one or more of its other clients. If the Resource and Real Estate Portfolio and one or more of the other clients of the Investment Advisor are engaged in the purchase or sale of the same security, the transactions will be effected on an equitable basis.

MANAGEMENT OF THE ONGOING BUSINESS TRUST

The Manager

The Manager will act as the manager of the Ongoing Business Trust. The Manager, in its capacity as manager of the Ongoing Business Trust, will be entitled to receive annual management fees. The Manager, in its capacity as manager of the Ongoing Business Trust, is responsible for payment of the investment management fees of the Investment Advisor. See “Fees and Expenses — Management Fees”.

The Manager’s duties as manager of the Ongoing Business Trust will be similar to the Manager’s duties as manager of the Trust. See “Management of the Trust — Duties and Services to be Provided by the Manager”. In particular, the Manager will be responsible for ensuring the Ongoing Business Trust complies with the continuous disclosure requirements applicable to it as a reporting issuer under the Securities Act (Québec).

The Investment Advisor

The Investment Advisor will provide investment advisory and portfolio management services to the Ongoing Business Trust with respect to the Ongoing Business Trust Portfolio pursuant to the terms of the Ongoing Business Trust Investment Advisory Agreement. See “The Investment Advisor” for details concerning the Investment Advisor.

Services to be Provided by the Investment Advisor

Decisions as to the purchase and sale of Ongoing Business Trust Portfolio securities, as to borrowing by the Ongoing Business Trust 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 Ongoing Business Trust Investment Advisory Agreement. Subject to the terms of the Ongoing Business Trust Investment Advisory Agreement and the investment restrictions applicable to the Trust, the Investment Advisor will select, monitor and manage the Ongoing Business Trust Portfolio. See “The Ongoing Business Trust Portfolio”.

The Manager, as manager of the Trust, is responsible for ensuring that the provisions of the Ongoing Business Trust Investment Advisory Agreement are consistent with the investment guidelines and restrictions relating to the Ongoing Business Trust Portfolio and that such investment guidelines and restrictions comply with applicable Canadian federal and provincial laws. The Manager is also responsible for analyzing all provisions of applicable Canadian federal and provincial laws and interpretations of such laws (and any changes thereto) referenced in the investment guidelines and restrictions relating to the Ongoing Business Trust and providing the Investment Advisor with specific investment parameters, including identification of permissible investments, that comply with such laws and interpretations. See “Investment Guidelines of the Ongoing Business Trust — Investment Restrictions of the Ongoing Business Trust”.

The Ongoing Business Trust Investment Advisory Agreement

The Ongoing Business Trust Investment Advisory Agreement between the Manager and the Investment Advisor, unless terminated as described below, will continue until the termination of the Trust. The terms of the Ongoing Business Trust Investment Advisory Agreement will be the same as the Investment Advisory Agreement. See “Management of the Trust — The Investment Advisory Agreement”.

Conflict of Interest

The services of the Manager and its officers and directors are not exclusive to the Ongoing Business 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 in units in the Ongoing Business Trust Portfolio, and provide similar services to other investment funds and other clients and engage in other activities. Investment decisions for the Ongoing Business 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 Ongoing Business Trust and for one or more of its other clients. If the Ongoing Business 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.

THE TRUSTEE

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

The Trustee or any successor trustee may resign upon 60 days' written notice to Holders and the Manager or may be removed with the approval of a majority of the votes cast at a meeting of Holders called for such purpose with two or more persons present in person or by proxy representing not less than 10% of Units then outstanding. Any such resignation or removal shall become effective only on the acceptance of appointment by a successor trustee. 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 Manager or any Holder may apply to a court of competent jurisdiction for the appointment of a successor trustee.

The Trust Agreement provides that the Trustee will not be liable in carrying out its duties under the Trust Agreement except in cases of wilful misconduct, bad faith, negligence or disregard of its obligations and duties or in cases where the Trustee fails to act honestly and in good faith with a view to the best interests of the Holders or to exercise the degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances. In addition, the Trust Agreement contains other customary provisions limiting the liability of the Trustee and indemnifying the Trustee in respect of certain liabilities incurred by it in carrying out its duties.

The address of the Trustee is 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.

TRUST AGREEMENT AND DESCRIPTION OF UNITS

General

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

- (i) investing in, holding and selling securities for the Common Share Portfolio and the Resource and Real Estate Portfolio and cash equivalents as provided for herein;
- (ii) entering into and performing its obligations under the Forward Agreement with the Counterparties (or additional forward or other derivative transactions intended to have the same effect) and other documentation relating thereto; and
- (iii) lending Common Share Portfolio securities pursuant to a Securities Lending Agreement.

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 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 of the Trust ("NAV per Unit"),

(ii) on a distribution of Units or an automatic reinvestment of distributions of net income or net realized capital gains as discussed below, or (iii) with the approval of Holders by Extraordinary Resolution (as defined below). It is not anticipated that any additional Units will be issued unless any new investors are provided with the same terms and conditions as Units offered hereunder. 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 Trust Agreement (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 Trust Agreement 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 Trust Agreement 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, 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 Trust Agreement 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. Any such distribution may only be made after the first anniversary of the closing date of the Offering. Immediately following any such distribution of Units or automatic reinvestment of 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 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 Manager, on behalf of the Trust, 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 Manager or Holders holding 10% or more of Units outstanding. 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 Units 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.

Certain matters shall require the approval of Holders by 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 Extraordinary Resolution shall consist of two or more Holders present in person or by proxy and representing not less than 25% of Units then outstanding.

The matters which require Holder approval by Extraordinary Resolution include the termination of the Manager, 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 Trust Agreement”.

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 Trust Agreement

The Trust Agreement may only be amended with the consent of Holders. Changes, in any manner, to the Investment Guidelines of the Trust (other than the standard investment restrictions and practices set forth in NI 81-102 and adopted by the Trust), 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 require approval by Extraordinary Resolution. However, no amendment can be made to the Trust Agreement which 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 Trust Agreement 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 Trust Agreement 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 Trust Agreement, for the purpose of supplementing any provision which may be defective or inconsistent with another provision, for the purpose of compliance with applicable law, for the purpose of conforming the Trust Agreement with current administrative practice or to provide added protection to Holders. Such amendments may be made only if they will not materially adversely affect the interest of any Holder. The Manager may also amend the Trust Agreement

without the consent of the Holders for the purpose of removing any conflicts or other inconsistencies which may exist between the Trust Agreement and applicable law, changing the Trust's taxation year-end as permitted under the *Income Tax Act* (Canada) or maintaining the status of the Trust as a "mutual fund trust" for purposes of the *Income Tax Act* (Canada). Any amendments made by the Manager without the consent of the Holders must be disclosed in the next regularly scheduled report to Holders.

Reporting to Holders

The Trust will deliver to each Holder audited annual and, subject to any necessary regulatory approval, unaudited semi-annual financial statements of the Trust and the Ongoing Business Trust and will comply with all other continuous disclosure requirements applicable to it as a reporting issuer under applicable securities laws.

TERMINATION OF THE TRUST

The Trust will terminate on the Termination Date unless terminated earlier in accordance with the terms of the Trust Agreement 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 settlement of the Forward Agreement, and 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. The payment of the net assets of the Trust to the Holders after the Termination Date is expected, subject to performance of the Trust and the Ongoing Business Trust and the Counterparties to consist of an amount equal to the redemption proceeds for a corresponding number of units of the Ongoing Business Trust plus the net asset value of the Resource and Real Estate Portfolio.

Not less than six months nor more than 12 months prior to the Termination Date, the Manager 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, 2023.

DISTRIBUTIONS

Distribution Policy

In accordance with the Trust's investment objective to provide Holders with a stable stream of tax efficient monthly distributions consisting primarily of capital gains and return of capital targeted to be \$0.0666 per Unit (\$0.80 per annum to yield 8.00% on the subscription price of \$10.00 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 December 31, 2002. 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 such payments on any Payment Date. The Trust shall make distributions to Holders that correspond with distributions made on units of the Ongoing Business Trust. Under the Forward Agreement, if the Ongoing Business Trust suspends redemptions or fails to pay distributions on its units corresponding to the Trust's targeted distributions, the Counterparties will suspend payment in respect of a partial settlement until such time as such redemptions and distributions are reinstated. In such circumstances, the Trust may be unable to pay its targeted distributions.

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 amount of distributions in any particular calendar month will be determined by the Manager, in consultation with the Investment Advisor, having regard to the investment objectives and strategy 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.

Monthly cash distributions over the life of the Trust will be derived from the proceeds of disposition of Common Share Portfolio securities if the Trust elects physical settlement and/or from the proceeds of disposition of Resource and Real Estate Portfolio securities. The proceeds from disposition of the Common Share Portfolio would be received by the Trust from the Counterparties under the Forward Agreement.

The Trust intends that the aggregate distributions of net income and net realized capital gains made in each year will be sufficient to ensure that the Trust will not be liable for income tax thereon under the *Income Tax Act* (Canada), 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. All 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 the performance of the Resource and Real Estate Portfolio and the value of the securities in the Ongoing Business Trust Portfolio.

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 Manager and the Trustee 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 Holders by increasing the number of times in each year that Units may be redeemed by Holders, provided that no such change may be made without Unitholder 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 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).

To the extent necessary to permit the Trust to fund distributions as well as redemptions of Units by Holders from time to time, payment for purchases of Units in the market, investment of additional amounts in the Resource and Real Estate Portfolio and expenses of the Trust, the terms of the Forward Agreement will provide that all or part of the Forward Agreement may be settled prior to the Termination Date by the Trust tendering to the Counterparties securities of the Common Share Portfolio.

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 Manager may direct the Trustee to suspend the redemption of Units or payment of redemption proceeds (i) for the whole or any part of a period during which normal trading is suspended on a stock exchange, or other market within or outside Canada on which equity securities are listed and traded, if those securities represent more than 50% by value, or underlying market exposure, of the total assets of the Resource and Real Estate Portfolio and the Common Share Portfolio or the Ongoing Business Trust Portfolio without allowance for liabilities and if those securities are not traded on any other exchange or market that represents a reasonably practical alternative for the Trust; or (ii) with the prior permission of the Ontario Securities Commission, for any period not exceeding 120 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Trust or the Ongoing Business Trust or which impair the ability of the Valuation Agent (as defined under "Valuation — Valuation of Assets") to determine the value of the assets of the Trust and the Ongoing Business Trust. The suspension may, at the sole discretion of the Manager, 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 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 Manager shall be conclusive.

Resale of Units Tendered for Redemption

The Trust will enter into an agreement (the "Recirculation Agreement") with TDSI (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 commission. 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 "Trust Agreement 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 and the Ongoing Business Trust’s respective assets as set forth below.

The total assets of the Trust consist of the aggregate value of the assets of the Resource and Real Estate Portfolio and the Common Share Portfolio and the Forward Agreement. Since the value of the Trust’s rights and obligations under the Forward Agreement is determined by reference to the value of the Ongoing Business Trust Portfolio, the NAV is linked in part to the value of the Ongoing Business Trust Portfolio. The total assets of the Resource and Real Estate Portfolio consist of the aggregate value of the Resource and Real Estate Portfolio assets and the total assets of the Ongoing Business Trust Portfolio consist of the aggregate value of the Ongoing Business Trust Portfolio assets. The Manager will notify the Valuation Agent of any adjustments in the holdings of the Resource and Real Estate Portfolio or the Ongoing Business Trust Portfolio. The Manager will review and, if satisfactory, approve the valuation 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

Net asset value will be calculated by the Valuation Agent on each NAV Valuation Date by subtracting the aggregate amount of the liabilities of the Trust or the Ongoing Business Trust from the total assets of the Trust or the Ongoing Business Trust. The total assets of the Trust and the Ongoing Business 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 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 date of valuation on which the net asset value 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) 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 in foreign currency and the value of all liabilities and contractual obligations payable 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 net asset value 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 published daily in a national newspaper and will also 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.

For purposes of calculating the amount of the management fees payable to the Manager of the Trust, the net asset value of the Resource and Real Estate Portfolio will be calculated monthly using the same valuation principles described above.

In discharging its valuation duties, the Valuation Agent shall be entitled to rely on reports prepared for it by 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 *Income Tax Act* (Canada) (the "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 the Common Share Portfolio will consist of "Canadian securities" for purposes of the Act and that the Trust will elect in accordance with the Act to have each of its Canadian securities treated as capital property.

This summary is based on the current provisions of the Act and the regulations thereunder, counsel's understanding of the current administrative and assessing practices of the Canada Customs and Revenue Agency and all specific proposals to amend the Act and regulations thereunder publicly announced by the Minister of Finance (Canada) prior to the date hereof. 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 or foreign income tax legislation or considerations.

This summary is not exhaustive of all possible Canadian federal tax considerations applicable to an investment in 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 Act, that the Trust will elect under the 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, (1) the Trust must be a Canadian resident "unit trust" for purposes of the Act, (2) 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 (3) the Trust must comply with certain minimum requirements respecting the ownership and dispersal of Units (the "minimum distribution 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 distribution requirements throughout the life of the Trust.

The Trust will qualify as a mutual fund trust on the closing of the Offering. 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 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 Act.

The Trust will not realize any income, gain or loss as a result of entering into the Forward Agreement. Provided the Trust elects in accordance with the 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. If the obligations of the Trust and the Counterparties under the Forward Agreement are settled by making cash payments as described under “Investment Guidelines of the Trust — Investment Objectives and Strategy of the Trust”, a payment made or received by the Trust may be treated as an income outlay or receipt, as applicable. If the Trust delivers securities in the Common Share Portfolio to the Counterparties in satisfaction of its obligations under the Forward Agreement and receives a payment from the Counterparties equal to the price stipulated in the Forward Agreement, the Trust will realize capital gains (losses) equal to the amount by which such purchase price (less reasonable costs of disposition) exceeds (is less than) the aggregate adjusted cost base of such securities.

The Trust’s 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 Trust may realize gains or losses by virtue of the fluctuation in the value of foreign currencies relative to Canadian dollars.

The 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 (whether in cash or in Units) in the taxation year. The non-taxable portion of the Trust’s net realized capital gains paid or payable 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.

Provided that appropriate designations are made by the Trust, such portion of (i) the net realized taxable capital gains of the Trust, and (ii) 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 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.

Under the 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. The purchase price for the Common Share Portfolio under the Forward Agreement from time to time may significantly exceed the aggregate adjusted cost base of the securities comprising the Common Share Portfolio. Therefore, there may be significant accrued gains in the Trust prior to the settlement of the Forward Agreement.

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 exceeded by) the aggregate of the adjusted cost base of Units 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 to a Holder, when a Unit is 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 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 net realized capital gains distribution (as contemplated under "Trust Agreement and Description of Units") will generally be equal to the amount of the net income or net realized capital gain distributed to the Holder that has been reinvested in Units.

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 realized may be deducted from taxable capital gains in accordance with the provisions of the Act.

In computing a Holder's income for purposes of the Act, any taxable capital gain designated to the Holder in accordance with the provisions of the Act, arising from the settlement of the Forward Agreement (or otherwise), may be netted against any allowable capital loss realized by the Holder, including any allowable capital loss realized on the disposition of Units to the Trust on redemption.

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 *Income Tax Act* (Canada), Units offered hereby will be qualified investments under the *Income Tax Act* (Canada) for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans. Based on the Trust's proposed investments and provided the Trust is a "mutual fund trust" within the meaning of the *Income Tax Act* (Canada), Units will not constitute "foreign property" for purposes of the tax imposed under Part XI of the *Income Tax Act* (Canada).

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	\$75,000,000	\$20,000,000
Agents' fee	\$ 3,937,500	\$ 1,050,000
Expenses of issue	\$ 550,000	\$ 550,000
Net proceeds to the Trust	<u>\$70,512,500</u>	<u>\$18,400,000</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 Resource and Real Estate Portfolio and in the Common Share Portfolio which will be subject to the Forward Agreement.

PLAN OF DISTRIBUTION

Pursuant to an agency agreement (the “Agency Agreement”) between TDSI, CIBC World Markets Inc., RBC DS, BMO Nesbitt Burns Inc., National Bank Financial Inc., Scotia Capital Inc., Raymond James Ltd., HSBC Securities (Canada) Inc., Yorkton Securities Inc., Canaccord Capital Corporation and Desjardins Securities Inc. (collectively, the “Agents”), the Manager on behalf of the Trust, the Manager 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 \$10.00 per Unit. The Agents will receive a fee equal to \$0.525 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 1,125,000 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 \$0.525 in respect of each Unit sold.

Proceeds from subscriptions will be held by the Agents in trust in a segregated account until closing. If subscriptions for a minimum of 2,000,000 Units have not been received within 90 days following the date of issuance of a receipt for the (final) prospectus, the Offering may not continue without the consent of the Canadian Securities Administrators and those who have subscribed 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. **Together with this prospectus, the Trust will deliver a copy of a prospectus of the Ongoing Business Trust for which a receipt has been obtained from the Commission des valeurs mobilières du Québec to purchasers in the Province of Québec.**

In the event the minimum Offering is not achieved and the necessary consents are not obtained or the closing does not occur for any reason, subscription proceeds received from prospective purchasers will be returned to such purchasers promptly without interest or deduction. Subscriptions for Units will be received subject to rejection or allotment in whole or in part. The decision to accept or reject the subscription will be made promptly, and in any event within two days of receipt of the subscription. 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. Closing will take place on or about November 28, 2002 or such later date as may be agreed on by the Manager on behalf of the Trust and the Agents that is on or before December 28, 2002.

Pursuant to policy statements of certain Canadian Securities Administrators, 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 Toronto Stock Exchange (the "TSX") has conditionally approved the listing of Units, subject to fulfillment by the Trust of the requirements of the TSX on or before January 3, 2003, including distribution to a minimum number of Holders.

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) incurred by the Agents and other incidental expenses, which are estimated to be \$550,000 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 on-going business and administrative affairs of the Trust and the Ongoing Business Trust. As compensation for management services rendered to the Trust, the Manager is entitled to receive (i) in respect of the Resource and Real Estate Portfolio, an annual management fee in an amount equal to 1.10% of the net asset value of the Resource and Real Estate Portfolio and (ii) in respect of management of the Trust's other assets, an annual management fee in an amount equal to 0.55% of the net asset value of the Trust's assets other than the Resource and Real Estate Portfolio, each such fee to be calculated and payable monthly in arrears, plus applicable taxes. As compensation for management services rendered to the Ongoing Business Trust, the Manager is entitled to receive an annual management fee in an amount equal to 0.55% of the net asset value of the Ongoing Business Trust calculated and payable monthly in arrears, plus applicable taxes. In addition, the Manager is entitled to receive an amount equal to the service fee (the "Service Fee") payable to registered dealers. The Manager, in its capacity as manager of the Trust and the Ongoing Business Trust, is responsible for payment of the investment management fees of the Investment Advisor.

In the event that the Trust does not distribute at least \$0.0666 per Unit in respect of any month commencing with the second month following the month in which closing of the Offering occurs, the management fees payable to the Manager, in its capacity as manager of the Trust, in respect of each subsequent month and the Service Fee payable to registered dealers in respect of each such subsequent month shall be reduced *pro rata* based on the amount by which the distribution in respect of the previous month is less than \$0.0666 per Unit, subject to a minimum monthly management fee of $\frac{1}{12}$ of 0.55% of the net asset value of the Resource and Real Estate Portfolio. Subject to the minimum fee described above, the management fees payable to the Manager in respect of the Resource and Real Estate Portfolio and in respect of the Trust's other assets shall be reduced in equal proportions. Regular monthly fees payable to the Manager and the Service Fee payable to registered dealers will resume in respect of the month (or, in the case of the Service Fee, the semi-annual period) for which the Trust distributes at least \$0.0666 per Unit. The amount by which such fees are reduced will not be recoverable by the Manager until such time as the corresponding distribution shortfall has been paid to the Holders and, on the Termination Date, will not be payable out of the assets of the Trust or the Ongoing Business Trust, unless an amount equal to any remaining distribution shortfall plus the original subscription price is returned to the Holders.

Ongoing Expenses

The Trust will pay to the Counterparties a fee under the Forward Agreement of approximately 0.65% per annum of the net asset value of the Ongoing Business Trust, plus a fee which may vary based on the value of the Common Share Portfolio, calculated and payable monthly in arrears. The fee which may vary is intended to compensate the Counterparties for the costs of hedging their exposure under the Forward Agreement, if they choose to do so, and will equal the fees that would be charged to the Counterparties for borrowing securities matching the securities in the Common Share Portfolio.

Each of the Trust and the Ongoing Business Trust will also pay for all expenses incurred in connection with its operation and administration. It is expected that these expenses will include, without limitation: mailing and printing expenses for periodic reports to Holders; fees payable to the Trustee for acting as trustee of the Trust; fees payable to the Valuation Agent for performing certain valuation services; fees payable to the custodian for acting as custodian of the assets of the Trust; 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 Manager or its agents in connection with their ongoing obligations to the Trust or the Ongoing Business 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 or the Ongoing Business Trust. The Manager estimates that administration and operating costs for the Trust and the Ongoing Business Trust will be approximately \$125,000 and \$150,000, respectively, per annum (assuming an offering size of approximately \$50 million). A small amount of additional administration and operating costs may arise as a result of the establishment of both the Trust and the Ongoing Business Trust (as compared to other investment trust offerings where only one trust is established). Each of the Trust and the Ongoing Business 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 Manager 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 MANAGER 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 and the Trustee. See “Management of the Trust”.

RISK FACTORS

There are certain risks associated with an investment in Units, some of which are outlined below. 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 or that the Ongoing Business Trust Portfolio or the Resource and Real Estate Portfolio will earn any return. As a consequence of entering into the Forward Agreement, the Trust will forgo the benefits of any increase in the value of the Common Share Portfolio.

There is no assurance that the Trust will be able to pay monthly distributions. The Trust expects to exercise its right to settle portions of the Forward Agreement prior to the Termination Date to the extent necessary to permit the Trust to fund monthly distributions as well as redemptions of Units by Holders from time to time, payment for purchases of Units in the market, investment of additional amounts in the Resource and Real

Estate Portfolio and expenses of the Trust. Accordingly, the Trust's ability to pay distributions will be influenced by the performance of the Ongoing Business Trust Portfolio as well as the Resource and Real Estate Portfolio.

There is no guarantee that the Ongoing Business Trust Portfolio or the Resource and Real Estate Portfolio will earn any return. 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 Ongoing Business Trust Portfolio and the value of the securities in the Resource and Real Estate Portfolio. Fluctuations in the market values of the securities held in the Ongoing Business Trust Portfolio or of the securities in the Resource and Real Estate Portfolio may occur for a number of reasons beyond the control of the Manager. 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.

Counterparty Risk

The Trust will enter into the Forward Agreement with the Counterparties pursuant to which the Trust will be required to deliver to the Counterparties on the Termination Date the Common Share Portfolio in exchange for a cash payment in an amount equal to the redemption proceeds for a corresponding number of units of the Ongoing Business Trust. In entering into the Forward Agreement, the Trust will be exposed to the credit risk associated with the Counterparties. Depending on the value of the Common Share Portfolio, the Trust's exposure to the credit risk of the Counterparties may be significant. In addition, the possibility exists that the Counterparties or any guarantor of the obligations of a counterparty pursuant to the Forward Agreement, will default on their payment obligations under the Forward Agreement or that the proceeds of the Forward Agreement will be used to satisfy other liabilities of the Trust, which liabilities could include obligations to third-party creditors in the event the Trust has insufficient assets, excluding the proceeds of the Forward Agreement, to pay its liabilities. Holders will have no recourse or rights against the assets of the Ongoing Business Trust Portfolio or the Counterparties in respect of the Forward Agreement or arising out of the Forward Agreement.

Securities Lending

The Trust may engage in securities lending as described under "Investment Guidelines of the Trust — 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 to purchase additional units for the Resource and Real Estate Portfolio. The indebtedness will be secured by the Resource and Real Estate Portfolio. There can be no assurance that the borrowing strategy employed by the Trust will enhance returns. The use of leverage may reduce returns (both distributions and capital) to Holders. If the securities in the Resource and Real Estate Portfolio suffer a substantial decrease in value, the leverage component will cause a decrease in NAV in excess of that which would otherwise be experienced. The use of leverage may also require liquidation of investments at times which are unfavourable to the Trust in order to comply with the terms of the Loan Facility. The interest expense and banking fees incurred in respect of the Loan Facility may exceed the incremental capital gains/losses and income generated by the incremental investment of Resource and Real Estate Portfolio securities. In addition, the Trust may not be able to renew the Loan Facility on acceptable terms.

The Ongoing Business Trust may also employ leverage as part of its investment strategy, as described under “Investment Guidelines of the Ongoing Business Trust — Ongoing Business Trust Loan Facility” and is subject to the same risks described above.

Real Estate Investments

Investments in REITs 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 REIT’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 REIT or if the REIT were unable to lease a significant amount of available space in its properties on economically favourable lease terms.

Operating History and Marketability of Units

The Trust is a newly organized investment trust with no previous operating history. There is currently no public 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.

Treatment of Proceeds of Disposition

In determining its income for tax purposes, the Trust will treat gains or losses on the disposition of securities in the Common Share Portfolio under the Forward Agreement as capital gains and losses. The Canada Customs and Revenue Agency’s practice is not to grant advance income tax rulings on the characterization of items as capital gains or income and no advance income tax ruling has been requested or obtained.

If, contrary to the advice of counsel to the Trust and to the Agents or as a result of a change of law, upon physical settlement of the Forward Agreement the character and timing of the gain under the Forward Agreement were other than a capital gain on the sale of the securities thereunder, after-tax returns to Holders could be reduced and the Trust could be subject to non-refundable income tax from such transactions.

Deductibility of Interest on Borrowings

The Canada Customs and Revenue Agency (the “CCRA”) has expressed its view that, in certain circumstances, the deductibility of interest on money borrowed to invest in an income trust may be reduced on a *pro rata* basis in respect of non-taxable distributions from the income trust which are not reinvested for an income earning purpose. Counsel is of the view that, while the ability to deduct interest will always depend on the facts, based on the jurisprudence, the CCRA’s position should not impact on the Trust’s ability to deduct interest on money borrowed to acquire the Resource and Real Estate Portfolio. 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 the Resource and Real Estate Portfolio 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. Similar considerations would apply to the deductibility of interest by the Ongoing Business Trust in connection with money borrowed to invest in the Ongoing Business Trust Portfolio. If part of the interest deductions claimed by the Ongoing Business Trust in connection with money borrowed to invest in the Ongoing Business Trust Portfolio were denied, the Ongoing Business Trust could be subject to non-refundable tax, reducing the return to the Trust under the Forward Agreement.

Reliance on Manager, Investment Advisor and Key Personnel

Performance of the Resource and Real Estate Portfolio and the Ongoing Business Trust Portfolio will be dependent on the Manager, which acts as Manager of both the Trust and the Ongoing Business Trust, and the Investment Advisor, which provides investment advisory and portfolio management services in respect of the Resource and Real Estate Portfolio pursuant to the Investment Advisory Agreement and in respect of the Ongoing Business Trust Portfolio pursuant to the Ongoing Business Trust Investment Advisory Agreement. Mr. Richard Howson, the portfolio manager of the Investment Advisor, will be principally responsible for providing such investment advisory and portfolio management services. In the event that Mr. Howson ceases to be employed by the Investment Advisor, or if the Investment Advisor ceases to be the investment advisor and portfolio manager, the performance of the Ongoing Business Trust Portfolio and the Resource and Real Estate Portfolio may be adversely affected.

Changes in Legislation

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

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 Trust Agreement will provide that no Holder, in its capacity as such, will be subject to any liability whatsoever, in tort, contract or otherwise, to any person in connection with the Trust's property or the obligations or the affairs of the Trust and all such persons 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 Trust Agreement, the Trust will indemnify and hold harmless 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 Trust Agreement 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.

Conflicts of Interest

The Manager and its respective directors and officers and their respective affiliates and associates may engage in the promotion, management or investment management of any other fund or trust which invests primarily in units of Canadian income trusts.

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, the Ongoing Business 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 Manager, the Trust and the Ongoing Business Trust.

Status of the Trust and the Ongoing Business Trust

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. Although certain restrictions imposed on mutual funds under Canadian securities laws do not apply to the Trust, the Trust has adopted certain investment restrictions that are applicable to mutual funds under NI 81-102. See "Investment Guidelines of the Trust — Investment Restrictions".

Certain restrictions imposed on mutual funds under Canadian securities laws, including NI 81-102, do not apply to the Ongoing Business Trust. See “Investment Guidelines of the Ongoing Business Trust — Investment Restrictions of the Ongoing Business Trust”.

Foreign Currency Exposure

Certain of the investments in the Ongoing Business Trust Portfolio and in the Resource and Real Estate Portfolio, at any time, may consist of securities denominated in U.S. dollars or Euros and, accordingly, the NAV will, when measured in Canadian dollars, be affected by fluctuations in the value of the U.S. dollar or Euro relative to the Canadian dollar.

Sensitivity of Market Price of Units to Interest Rates

As the Trust is intending to provide Holders with a stable stream of monthly distributions consisting of capital gains and return of capital targeted to be \$0.0666 per Unit (\$0.80 per annum to yield 8.00% on the original subscription price of the Units (\$10.00 per Unit)), the market price of Units may be affected by the level of interest rates prevailing from time to time.

MATERIAL CONTRACTS

Material contracts which 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 Trust Agreement made between Skylon Advisors Inc. as manager and trustee referred to under “The Trust”, “Trust Agreement and Description of Units” and “The Trustee”;
- (b) the Investment Advisory Agreement made between the Manager on behalf of the Trust, the Manager and the Investment Advisor;
- (c) the Agency Agreement made between the Manager on behalf of the Trust, the Manager, Skylon Capital and the Agents referred to under “Plan of Distribution”;
- (d) the custodial agreement made between the Manager on behalf of the Trust, the Manager and State Street Trust Company Canada referred to under “Auditors, Valuation Agent, Transfer Agent, Registrar and Custodian”;
- (e) the registrar, transfer agency and distribution agency agreement made between the Manager on behalf of the Trust, the Manager and Computershare Trust Company of Canada referred to under “Auditors, Valuation Agent, Transfer Agent, Registrar and Custodian”;
- (f) the valuation services agreement made between the Manager on behalf of the Trust, the Manager and State Street Fund Services Toronto Inc. referred to under “Auditors, Valuation Agent, Transfer Agent, Registrar and Custodian”;
- (g) the Forward Agreement made between the Manager on behalf of the Trust and the Counterparties referred to under “Investment Guidelines of the Trust”; and
- (h) the guarantee by The Toronto-Dominion Bank of TDGF’s obligations under the Forward Agreement referred to under “Investment Guidelines of the Trust — Investment Objectives and Strategy of the Trust”.

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.

The Trustee will act as trustee of the Trust pursuant to the Trust Agreement. 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 closing of the Offering.

State Street Trust Company Canada will serve as custodian of the Trust pursuant to an agreement to be dated as of the closing of the Offering. However, the custodian will not hold Common Share Portfolio securities owned by the Trust and pledged to the Counterparties. State Street Trust Company Canada will also serve as custodian of the Ongoing Business Trust pursuant to a custodial agreement. State Street Fund Services Toronto Inc., as valuation agent, will perform certain valuation services for the Trust and for the Ongoing Business Trust pursuant to valuation services agreements.

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.

In addition, the Manager has agreed on behalf of the Trust that purchasers in the Province of Québec have the right to withdraw from an agreement to purchase Units which may be exercised within two Business Days after receipt or deemed receipt of the prospectus of the Ongoing Business Trust. See “Plan of Distribution”.

AUDITORS' REPORT

To the Trustee of
SAXON DIVERSIFIED VALUE TRUST:

We have audited the statement of financial position of Saxon Diversified Value Trust (the "Trust") as at October 30, 2002. 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 October 30, 2002 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
October 30, 2002

(Signed) ERNST & YOUNG LLP
Chartered Accountants

COMPILATION REPORT

To the Trustee of
SAXON DIVERSIFIED VALUE TRUST:

We have reviewed, as to compilation only, the accompanying *pro forma* statement of financial position of Saxon Diversified Value Trust (the "Trust") as at October 30, 2002 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
October 30, 2002

(Signed) ERNST & YOUNG LLP
Chartered Accountants

**SAXON DIVERSIFIED VALUE TRUST
STATEMENT OF FINANCIAL POSITION**

October 30, 2002

	Actual	<i>Pro Forma</i> (unaudited) (Note 4)
ASSETS		
Cash	\$10	—
Investment in portfolio securities	—	\$18,400,000
Total	\$10	\$18,400,000
HOLDERS' EQUITY		
Holders' equity (Notes 1 and 4):		
Units (actual 1 Unit; <i>pro forma</i> 2,000,000, net of issue costs)	\$10	\$18,400,000

Approved by the Manager:

(Signed) GORDON A. MCMILLAN
Director

(Signed) COLIN S. MERCIER
Director

Notes:

(1) Units Authorized and Outstanding

Establishment of the Trust and Authorized Units

Saxon Diversified Value Trust (the "Trust") was established under the laws of the Province of Ontario on October 30, 2002 by a trust agreement (the "Trust Agreement") made between Skylon Advisors Inc. (the "Manager") as manager and as trustee. The Trust is authorized to issue an unlimited number of Units. On October 30, 2002 the Trust issued 1 Unit for \$10 cash.

(2) Agency Agreement and Custodian

The Trust has engaged TD Securities Inc., CIBC World Markets Inc., RBC DS, BMO Nesbitt Burns Inc., National Bank Financial Inc., Scotia Capital Inc., Raymond James Ltd., HSBC Securities (Canada) Inc., Yorkton Securities Inc., Canaccord Capital Corporation and Desjardins Securities Inc. (collectively, the "Agents") to offer for sale to the public pursuant to a prospectus dated October 30, 2002 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

The Trust has retained the Manager to act as manager under the Trust Agreement. As compensation for management services rendered to the Trust, the Manager is entitled to receive (i) in respect of the Resource and Real Estate Portfolio, an annual management fee in an amount equal to 1.10% of the net asset value of the Resource and Real Estate Portfolio and (ii) in respect of management of the Trust's other assets, an annual management fee in an amount equal to 0.55% of the net asset value of the Trust's assets other than the Resource and Real Estate Portfolio, each such fee to be 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.

In the event that the Trust does not distribute at least \$0.0666 per Unit in respect of any month commencing with the second month following the month in which closing of the Offering occurs, the management fees payable to the Manager, in its capacity as manager of the Trust, in respect of each subsequent month and the Service Fee payable to registered dealers in respect of each such subsequent month shall be reduced *pro rata* based on the amount by which the distribution in respect of the previous month is less than \$0.0666 per Unit, subject to a minimum monthly management fee of 1/12 of 0.55% of the net asset value of the Resource and Real Estate Portfolio. Subject to the minimum fee described above, the management fees payable to the Manager in respect of the Resource and Real Estate Portfolio and in respect of the Trust's other assets shall be reduced in equal proportions. Regular monthly fees payable to the Manager and the Service Fee payable to registered dealers will resume in respect of the month (or, in the case of the Service Fee, the semi-annual

period) for which the Trust distributes at least \$0.0666 per Unit. The amount by which such fees are reduced will not be recoverable by the Manager until such time as the corresponding distribution shortfall has been paid to the Holders and, on the Termination Date, will not be payable out of the assets of the Trust or the Ongoing Business Trust, unless an amount equal to any remaining distribution shortfall plus the original subscription price is returned to the Holders.

Under the Forward Agreement the Trust will pay to the Counterparties a fee of approximately 0.65% per annum of the net asset value of the Ongoing Business Trust, plus a fee which may vary based on the value of the Common Share Portfolio, calculated and payable monthly in arrears.

(4) ***Pro Forma Statement of Financial Position (Unaudited)***

The *pro forma* statement of financial position gives effect, as at October 30, 2002, to the following transactions:

- (a) The issue of 2,000,000 Units for total gross proceeds of \$20,000,000.
- (b) The payment of estimated costs relating to the Offering of \$1,600,000, which amount is comprised of the fee payable to the Agents in the Offering of \$1,050,000 and issue costs of \$550,000.
- (c) The completion of the purchase of an investment portfolio at a cost of \$18,400,000.

CERTIFICATE OF THE MANAGER

Dated: October 30, 2002

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), 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 manager and on behalf of Saxon Diversified Value 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: October 30, 2002

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), 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: October 30, 2002

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), 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 V. JACKSON

BMO NESBITT BURNS INC.

NATIONAL BANK FINANCIAL INC.

By: (Signed) JOHN MANNING

By: (Signed) IAN MCPHERSON

SCOTIA CAPITAL INC.

By: (Signed) BRIAN D. MCCHESENEY

RAYMOND JAMES LTD.

By: (Signed) JAMES COULTER

HSBC SECURITIES (CANADA) INC.

YORKTON SECURITIES INC.

By: (Signed) PATRICK M. NOLAN

By: (Signed) MARILIA COSTA

CANACCORD CAPITAL CORPORATION

DESJARDINS SECURITIES INC.

By: (Signed) WILLIAM G. MCILROY

By: (Signed) ERIC DÉSORMEAUX

