

PROSPECTUS

Initial Public Offering

June 26, 2002



SKYLON GLOBAL CAPITAL YIELD TRUST
\$150,000,000 (MAXIMUM)
6,000,000 SERIES 2012 UNITS

Skylon Global Capital Yield 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 of capital gains and return of capital of \$0.1510 per Unit (\$1.81 per annum to yield 7.25% on the subscription price of \$25.00 per Unit); and
- (ii) endeavour to preserve and enhance the net asset value of the Trust (the “NAV”) in order to return at least the original subscription price of the Units (\$25.00 per Unit) to Holders on or about July 31, 2012 (the “Termination Date”).

The distributions are intended to benefit Holders as returns of capital are generally not subject to tax (but would 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 Global High Yield Portfolio (as defined herein) by virtue of the Forward Agreement (as defined below). The Global High Yield Portfolio will consist primarily of global high yield instruments. To provide the Trust with the means to meet its investment objectives, the Trust will invest the net proceeds of the Offering in a portfolio of common shares of Canadian public companies (the “Common Share Portfolio”). The Trust will then enter into 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”) (TDGF and/or RBC 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 Global High Yield Trust (as defined below). The Trust will partially settle the Forward Agreement prior to the Termination Date in order to fund monthly distributions as well as redemptions of Units by Holders from time to time, payment for purchases of Units in the market and expenses of the Trust. 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”) are affiliates of TDGF and RBC, respectively, and are also Agents for the Offering. See “Investment Guidelines of the Trust”.

The Global High Yield Portfolio will be acquired by a newly created investment trust, Skylon Global High Yield Trust (the “Global High Yield Trust”). Pacific Investment Management Company LLC (“PIMCO”), located in Newport Beach, California, has been retained as investment sub-advisor by the Manager (as defined below) in its capacity as manager of the Global High Yield Trust to provide investment advisory and portfolio management services to the Global High Yield Trust and the Global High Yield Portfolio. See “Investment Guidelines of the Global High Yield Trust”.

PIMCO provides investment management and advisory services to private accounts of institutional and individual clients and to mutual funds. PIMCO is one of the largest active bond managers in the United States and, as of March 31, 2002, had approximately US\$254 billion in assets under management. See “The Investment Sub-Advisor”.

(continued from cover)

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 be responsible for execution of the Trust’s investment strategy, which includes acquiring the Common Share Portfolio and entering into the Forward Agreement. See “Management of the Trust — The Manager”. The Manager will also act as the manager and investment advisor of the Global High Yield Trust and has retained PIMCO to actively manage the Global High Yield 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 September 19, 2002, including the distribution of a minimum of 1,000,000 Units to a minimum number of Holders.

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

	Price to Public ⁽¹⁾	Agents’ Fee	Net Proceeds to the Trust ⁽²⁾
Per Unit	\$25.00	\$1,3125	\$23.6875
Maximum Offering ⁽³⁾⁽⁴⁾	\$150,000,000	\$7,875,000	\$142,125,000
Minimum Offering ⁽⁴⁾	\$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 \$750,000, 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 800,000 Units are sold. The maximum offering assumes that 6,000,000 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 900,000 additional Units on the same terms as set forth above, which additional Units are qualified for sale hereunder. If the Over-Allotment Option is exercised in full, the proceeds raised under the maximum offering will be \$172,500,000, the Agents’ fee will be \$9,056,250 and the net proceeds to the Trust will be \$163,443,750. See “Plan of Distribution”.

See “Risk Factors” for a discussion of certain factors that should be considered by prospective investors in Units. There can be no assurance that the Trust will be able to achieve its monthly distribution objective or its objective to preserve and enhance the NAV in order to return at least the original subscription price of the Units to Holders on or about the Termination Date.

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 Global High Yield 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, 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., HSBC Securities (Canada) Inc., Raymond James Ltd., Canaccord Capital Corporation, Desjardins Securities Inc., Dundee Securities Corporation and Yorkton Securities Inc. (the “Agents”), as agents, conditionally offer Units for sale on a best efforts basis, subject to prior sale, if, as and when issued by the Trust and accepted by the Agents in accordance with the conditions contained in the Agency Agreement referred to under “Plan of Distribution” and subject to approval of certain legal matters on behalf of the Trust and the Manager by McMillan Binch 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 July 24, 2002, but no later than September 24, 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”.

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
PROSPECTUS SUMMARY	4	VALUATION	37
SUMMARY OF FEES AND EXPENSES	12	Valuation of Assets	37
THE TRUST	14	Net Asset Value	37
Status of the Trust	14	Audit of Financial Statements	38
THE GLOBAL HIGH YIELD TRUST	14	CANADIAN FEDERAL INCOME TAX	
INVESTMENT GUIDELINES OF THE TRUST	14	CONSIDERATIONS	38
Investment Objectives and Strategy of the Trust	14	Status of the Trust	38
Investment Restrictions of the Trust	15	Taxation of the Trust	39
INVESTMENT GUIDELINES OF THE		Taxation of Holders	39
GLOBAL HIGH YIELD TRUST	16	ELIGIBILITY FOR INVESTMENT	40
Global High Yield Portfolio	16	USE OF PROCEEDS	41
Investment Restrictions of the Global High		PLAN OF DISTRIBUTION	41
Yield Trust	16	FEES AND EXPENSES	42
Use of Derivative Instruments	17	Initial Fees and Expenses	42
Loan Facility and Other Forms of Leverage	18	Management Fees	42
Securities Lending	19	On-Going Expenses	43
THE GLOBAL HIGH YIELD DEBT MARKET	19	Service Fee	43
Global High Yield Debt Securities	19	INTEREST OF MANAGEMENT IN	
Investment Opportunities in the Global High		MATERIAL TRANSACTIONS	43
Yield Debt Market	20	RISK FACTORS	43
THE INVESTMENT SUB-ADVISOR	21	No Assurance of Achieving Investment	
PIMCO	21	Objectives and No Guaranteed Rate of	
PIMCO's Portfolio Management Strategy	21	Return	43
MANAGEMENT OF THE TRUST	22	Fluctuations in Net Asset Value	44
The Manager	22	Global High Yield Debt Securities and	
Forward Agreement	22	Emerging Market Debt Securities	44
Securities Lending	23	Foreign Market Exposure	44
Duties and Services to be Provided by the		Counterparty Risk	45
Manager	24	Securities Lending	45
The Advisory Board	25	Leverage	45
Accounting and Reporting	26	Operating History and Marketability of Units ..	46
Officers and Directors of the Manager	26	Treatment of Proceeds of Disposition	46
Conflict of Interest	27	Reliance on Investment Sub-Advisor, Manager	
MANAGEMENT OF THE GLOBAL HIGH		and Key Personnel	46
YIELD TRUST	28	Foreign Currency Exposure	46
The Manager	28	Interest Rate Changes and Sensitivity of Market	
The Investment Sub-Advisor	28	Price of Units to Interest Rates	46
Services to be Provided by the Investment		Illiquid Securities	46
Sub-Advisor	28	Derivatives Risk	47
The Investment Sub-Advisory Agreement	28	Conflicts of Interest	47
Key Members of the Investment Sub-Advisor ..	29	Status of the Trust and the Global High Yield	
Conflict of Interest	30	Trust	47
THE TRUSTEE	31	Changes in Legislation	47
TRUST AGREEMENT AND DESCRIPTION		Legal and Statutory Rights	47
OF UNITS	31	Liability of Holders	48
General	31	MATERIAL CONTRACTS	48
Units	31	PROMOTERS	49
Book-Entry Only System	32	LEGAL MATTERS	49
HOLDER MATTERS	33	AUDITORS, VALUATION AGENT,	
Meetings of Holders and Extraordinary		TRANSFER AGENT, REGISTRAR AND	
Resolutions	33	CUSTODIAN	49
Amendments to the Trust Agreement	33	PURCHASERS' STATUTORY RIGHTS	49
Reporting to Holders	34	AUDITORS' REPORT	50
TERMINATION OF THE TRUST	34	COMPILATION REPORT	50
DISTRIBUTIONS	34	SKYLON GLOBAL CAPITAL YIELD TRUST	
Distribution Policy	34	STATEMENT OF FINANCIAL POSITION	51
REDEMPTION OF UNITS	35	CERTIFICATE OF THE MANAGER	53
Resale of Units Tendered for Redemption	36	CERTIFICATE OF THE PROMOTERS	54
Purchase for Cancellation	37	CERTIFICATE OF THE AGENTS	55

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: Skylon Global Capital Yield 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: \$150,000,000 (6,000,000 Units).

Minimum Issue: \$20,000,000 (800,000 Units).

Price: \$25.00 per Unit.

Minimum Subscription: \$2,500 (100 Units).

Investment Objectives: The Trust’s investment objectives are to:

- (i) provide holders of Units (“Holders”) with a stable stream of tax efficient monthly distributions consisting of capital gains and return of capital of \$0.1510 per Unit (\$1.81 per annum to yield 7.25% on the subscription price of \$25.00 per Unit); and
- (ii) endeavour to preserve and enhance the net asset value of the Trust (the “NAV”) in order to return at least the original subscription price of the Units (\$25.00 per Unit) to Holders on or about July 31, 2012 (the “Termination Date”).

The distributions are intended to benefit Holders as returns of capital are generally not subject to tax (but would 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 Global High Yield Portfolio (as defined below) by virtue of the Forward Agreement (as defined below). The Global High Yield Portfolio will consist primarily of global high yield instruments.

Investment Strategy:

To provide the Trust with the means to meet its investment objectives, the Trust will invest the net proceeds of the Offering in a portfolio of common shares of Canadian public companies (the “Common Share Portfolio”). The Trust will then enter into 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”) (TDGF and/or RBC 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 Global High Yield Trust (as defined below). **This amount may be more or less than the original subscription price of the Units.** The Trust will not enter into the Forward Agreement unless the aggregate net asset value of the corresponding number of units of the Global High Yield Trust will be, at the time the Global High Yield Trust is capitalized, equal to or greater than the initial NAV. The Trust will partially settle the Forward Agreement prior to the Termination Date in order to fund monthly distributions as well as redemptions of Units by Holders from time to time, payment for purchases of Units in the market and expenses of the Trust. 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. (“Standard & Poor’s”) or have an equivalent rating from Dominion Bond Rating Service Limited (“DBRS”) or other “approved credit rating organization” as defined in National Instrument 81-102 — Mutual Funds (“NI 81-102”). 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”) are affiliates of TDGF and RBC, respectively, and are also Agents for the Offering.

The Global High Yield Portfolio will be acquired by a newly created investment trust, Skylon Global High Yield Trust (the “Global High Yield Trust”). Pacific Investment Management Company LLC (“PIMCO” or the “Investment Sub-Advisor”), located in Newport Beach, California, will provide investment advisory and portfolio management services to the Global High Yield Trust and the Global High Yield Portfolio. **The return to the Holders and the Trust will be dependent upon the return on the Global High Yield Trust and the Global High Yield Portfolio by virtue of the Forward Agreement. However, neither the Trust nor the Holders will have any ownership interest in the Global High Yield Trust or the Global High Yield Portfolio. See “Investment Guidelines of the Trust”.**

Global High Yield Portfolio:

The portfolio of the Global High Yield Trust (the “Global High Yield Portfolio”) will consist primarily of an actively managed portfolio of global high yield instruments, including corporate debt, emerging market debt and other high yield instruments. The Global High Yield Portfolio may be diversified by company, industry, and sector. Canadian or U.S. government debt and/or cash equivalents may be held from time to time as market conditions dictate. Although PIMCO expects to invest primarily in global high yield instruments for the Global High Yield Portfolio, PIMCO retains the flexibility to invest in investment grade fixed income assets. Securities in the Global High Yield Portfolio will be selected based on their expected return relative to risk characteristics, taking into consideration factors such as credit quality and duration. See “Investment Guidelines of the Global High Yield Trust”.

The Global High Yield Debt Market:

High yield debt securities are generally considered to be debt securities that are rated at or below BB+ (a Standard & Poor’s rating category) or below BBB (a DBRS rating category). High yield debt securities also include securities that are not formally rated by an “approved rating organization” as defined in NI 81-102 but that bear yields equivalent to comparable rated securities. The prices at which high yield debt securities trade vary over time based on such factors as term to maturity, interest and currency rate fluctuations, the liquidity of the security, underlying changes in the risks associated with the issuer of the securities (such as business changes affecting a corporate issuer or political or economic risks affecting a government issuer), investor demand, and general economic trends.

As of December 31, 2001, U.S. corporate high yield debt outstanding was estimated to be in excess of US\$575 billion. Industries represented in the market include communications and media, conglomerates, consumer products, paper and forest products, health care, metals and minerals, gold and precious minerals, oil and gas, real estate and industrial products. Over the last several years, high yield debt securities have become a distinct asset class with attractive risk/return characteristics. According to Moody’s Investors Service, Inc., as of the same date, high yield bonds accounted for approximately 17% of all corporate bonds outstanding in the United States. The principal amount of new high yield debt issues has exceeded US\$50 billion in each of the years 1996 through to 2001.

High yield corporate bond markets are beginning to develop outside of the United States, particularly in Europe. The European corporate high yield debt market has experienced robust growth; since 1997, the market value of the European corporate high yield debt market has grown from less than US\$1 billion to over US\$20 billion. See “The Global High Yield Debt Market”.

Investment Sub-Advisor:

The Global High Yield Portfolio will be actively managed by PIMCO pursuant to an investment sub-advisory agreement (the “Investment Sub-Advisory Agreement”) between Skylon Advisors Inc. (the “Manager”), in its capacity as manager and investment advisor of the Global High Yield Trust, and PIMCO. PIMCO provides investment advisory and management services to private accounts of institutional and individual clients and to mutual funds. PIMCO is one of the largest active bond managers in the United States, and as of March 31, 2002, had approximately US\$254 billion in assets under management. Bill Gross, a founder and Managing Director and Chief Investment Officer of PIMCO, serves as head of PIMCO’s investment committee. The portfolio manager of PIMCO who will be primarily responsible for the Global High Yield Portfolio will be Curtis Mewbourne. Other key members of PIMCO who will be involved in the management and servicing of the Global High Yield Portfolio include: Mohamed El-Erian, Margaret Isberg, Raymond Kennedy, David Hinman and Mark Hudoff. See “The Investment Sub-Advisor” and “Management of the Global High Yield Trust”.

PIMCO’s Approach to Global High Yield Debt Markets:

PIMCO’s approach to managing bonds and other income-producing securities not only focuses on income but also seeks to preserve and enhance the value of its portfolios.

PIMCO’s approach to the global high yield debt market is consistent with its risk conscious approach toward the fixed income markets in general. PIMCO’s practice is to focus on the upper quality tiers of the global high yield debt market. Historically, the upper tiers of the market have produced the highest risk adjusted returns. PIMCO also exhibits a preference for issues that are senior within a capital structure or are secured with collateral.

PIMCO attempts to maximize total portfolio return or the combination of current yield and price change by focusing on corporate and sovereign issuers that it believes have stable or improving credit fundamentals. Identifying these issuers is accomplished through a disciplined process which combines macroeconomic forecasting, sovereign and corporate credit research, industry analysis and fundamental research.

Loan Facility and Other Forms of Leverage:

The Global High Yield Trust may enter into a loan facility (the “Loan Facility”) with a chartered bank prior to or shortly after the closing of the Offering. The Global High Yield Trust may also add leverage to the Global High Yield Portfolio by utilizing a variety of additional strategies, including but not limited to the use of reverse repurchase agreements, credit derivatives, and other derivative instruments. PIMCO, on behalf of the Global High Yield Trust, intends to use any Loan Facility or other form of leverage, when market conditions are appropriate, to attempt to increase the potential returns of the Global High Yield Trust by taking advantage of the spread between the potential return on additional investments in the Global High Yield Portfolio and the cost of borrowing the purchase price for such investments. **The Loan Facility, if any, together with other forms of leverage may be used following the closing of the Offering in an aggregate amount not to exceed 30% of the greater of: (i) the initial net asset value and (ii) the net asset value at the time the borrowing or other transaction is entered into, of the units of the Global High Yield Trust outstanding at such time.** See “Investment Guidelines of the Global High Yield Trust — Loan Facility and Other Forms of Leverage”.

Manager:

The Manager will act as the manager of the Trust and manager and investment advisor of the Global High Yield Trust. The Manager will provide all administrative services required by the Trust, and will be responsible for execution of the Trust's investment strategy, which includes acquiring the Common Share Portfolio and entering into the Forward Agreement. See "Management of the Trust — The Manager". The Manager is a wholly-owned subsidiary of Skylon Capital Corp. ("Skylon Capital"), an investment management holding company. Skylon Capital, through its wholly-owned subsidiaries, is the manager of Skylon Capital Yield Trust, which provides investors with exposure to the return on high yield debt securities advised by Marret Asset Management Inc., 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 of capital gains and return of capital of \$0.1510 per Unit (\$1.81 per annum to yield 7.25% on the subscription price of \$25.00 per Unit) to Holders of record on or about the last Business Day (any day on which the Toronto Stock Exchange is open for trading hereinafter referred to as a "Business Day") of each month (each, a "Record Date"). The Trust expects that the initial distribution will be payable to Holders of record on August 30, 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	\$ 150,000,000	\$ 20,000,000
Agents’ fee	\$ 7,875,000	\$ 1,050,000
Expenses of issue	\$ 750,000	\$ 750,000
Net proceeds to the Trust	<u>\$ 141,375,000</u>	<u>\$ 18,200,000</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 the Common Share Portfolio which will be subject to the Forward Agreement.

Termination:

On or about July 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 Global High Yield 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, 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 <i>Income Tax Act</i> (Canada), Units offered hereby will be qualified investments under the <i>Income Tax Act</i> (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 <i>Income Tax Act</i> (Canada), Units will not constitute “foreign property” for purposes of the tax imposed under Part XI of the <i>Income Tax Act</i> (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 <i>Income Tax Act</i> (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: <ul style="list-style-type: none"> <li data-bbox="459 1286 1439 1473">(i) there is no assurance that the Trust will be able to achieve its monthly distribution objective or its objective to endeavour to preserve and enhance the NAV in order to return at least the original subscription price of the Units to Holders on or about the Termination Date, and there is no guarantee that the Global High Yield Portfolio will earn any return; the Global High Yield Portfolio could be subject to losses; <li data-bbox="459 1493 1439 1587">(ii) the NAV will vary according to, among other things, distributions paid on the Units, the value of the instruments in the Global High Yield Portfolio, the performance of the global high yield debt market generally and interest rates; <li data-bbox="459 1607 1439 1701">(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; <li data-bbox="459 1721 1439 1773">(iv) the risks of investing in global high yield debt securities and emerging market debt securities, including default risk; <li data-bbox="459 1794 1439 1823">(v) foreign market exposure;

- (vi) counterparty risks associated with the Forward Agreement;
- (vii) counterparty risks associated with securities lending;
- (viii) the intention to use leverage in the Global High Yield Portfolio to enhance yield and that the Global High Yield Trust may use the maximum amount of leverage permitted;
- (ix) the Trust's lack of operating history and the current absence of a public trading market for Units;
- (x) 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;
- (xi) reliance on PIMCO, the Manager and key personnel;
- (xii) foreign currency exposure (however, PIMCO intends to hedge at least 90% of the Global High Yield Portfolio to the Canadian dollar at all times);
- (xiii) the risks associated with interest rate changes and the sensitivity of market price of Units to interest rates;
- (xiv) the possibility that the Global High Yield Trust will be unable to acquire or dispose of illiquid securities;
- (xv) the risks of investing in derivative instruments;
- (xvi) potential conflicts of interest;
- (xvii) status of the Trust and the Global High Yield Trust;
- (xviii) possible changes in tax or other legislation;
- (xix) legal and statutory rights; and
- (xx) the potential liability of Holders.

See "Risk Factors".

SUMMARY OF FEES AND EXPENSES

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

<u>Type of Charge</u>	<u>Description</u>
Fees payable to the Agents for selling Units:	\$1.3125 per Unit.
Expenses of issue:	The Trust will pay the expenses incurred in connection with the Offering, which are estimated to be \$750,000.
Management Fees:	As compensation for management services rendered to the Trust, the Manager is entitled to receive an annual management fee in an amount equal to 0.25% of the NAV calculated and payable monthly in arrears plus applicable taxes and an amount equal to the service fee (the “Service Fee”) payable to registered dealers. As compensation for management services rendered to the Global High Yield Trust, the Manager is entitled to receive an annual management fee in an amount equal to 0.85% of the net asset value of the Global High Yield Trust calculated and payable monthly in arrears, plus applicable taxes. The Manager, in its capacity as manager of the Global High Yield Trust, is responsible for payment of the investment management fees of PIMCO.
On-Going 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 NAV per Unit multiplied by the number of Units outstanding at such time, 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 Global High Yield Trust will also pay for all expenses incurred in connection with its operation and administration, estimated to be \$125,000 and \$200,000, for the Trust and the Global High Yield Trust respectively, per annum (assuming an offering size of approximately \$100 million). See “Fees and Expenses — On-Going Expenses” and “Management of the Trust — Forward Agreement”. Each of the Trust and the Global High Yield 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 \$0.1510 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 and the Global High Yield 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 \$0.1510 per Unit, subject to a minimum aggregate monthly management fee for services rendered as manager of the Trust and the Global High Yield Trust of $\frac{1}{12}$ of 0.18% of the NAV plus $\frac{1}{12}$ of 0.62% of the net asset value of the Global High Yield Trust. 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 \$0.1510 per Unit. Accrued fees will not be paid to 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 Global High Yield Trust unless an

amount equal to the original subscription price is returned to the Holders. The amount of the management fees payable to the Manager for management services rendered to the Global High Yield Trust will also be reduced to the extent that the investment management fees payable to PIMCO under the Investment Sub-Advisory Agreement are reduced. Any such reduction will not exceed the amount of PIMCO's investment management fee under the Investment Sub-Advisory Agreement. See "Investment Guidelines of the Global High Yield Trust — Investment Restrictions of the Global High Yield Trust".

THE TRUST

Skylon Global Capital Yield Trust (the “Trust”) is an investment trust established under the laws of Ontario pursuant to a trust agreement dated as of June 26, 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”).

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 GLOBAL HIGH YIELD TRUST

Skylon Global High Yield Trust (the “Global High Yield 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 Global High Yield Trust. The Global High Yield Trust will be established for the purpose of acquiring a portfolio consisting primarily of global high yield instruments (the “Global High Yield Portfolio”). The Global High Yield Trust will terminate on or about July 31, 2012 (the “Termination Date”) if not terminated earlier in accordance with its terms. Units of the Global High Yield Trust will be redeemable at the demand of its unitholders. The Manager will sell securities in the Global High Yield Portfolio as required in order to pay unitholders the net proceeds of disposition of the Global High Yield Portfolio (after satisfaction of its liabilities, if any) on the Termination Date. Where circumstances prevent an orderly sale of the Global High Yield 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 Global High Yield Portfolio, as the case may be. The Manager acts as manager and investment advisor of the Global High Yield Trust and has retained Pacific Investment Management Company LLC (“PIMCO” or the “Investment Sub-Advisor”) as investment sub-advisor to the Global High Yield Trust to manage the Global High Yield Portfolio pursuant to an investment sub-advisory agreement between the Manager and PIMCO (the “Investment Sub-Advisory Agreement”). See “Management of the Global High Yield Trust — The Investment Sub-Advisory Agreement”.

The Global High Yield Trust’s distribution policy is to pay monthly distributions of \$0.1510 per Unit. In addition, the Global High Yield Trust will 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), except to the extent that any such liability may be fully offset by tax credits available to it in respect of foreign taxes paid by it (if any).

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 of capital gains and return of capital of \$0.1510 per Unit (\$1.81 per annum to yield 7.25% on the subscription price of \$25.00 per Unit); and

- (ii) endeavour to preserve and enhance the net asset value of the Trust (the “NAV”) in order to return at least the original subscription price of the Units (\$25.00 per Unit) to Holders on or about the Termination Date.

The distributions are intended to benefit Holders as returns of capital are generally not subject to tax (but would 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 Global High Yield Portfolio by virtue of the Forward Agreement (as defined below). The Global High Yield Portfolio will consist primarily of global high yield instruments. To provide the Trust with the means to meet its investment objectives, the Trust will invest the net proceeds of the Offering in a portfolio of common shares of Canadian public companies (the “Common Share Portfolio”). The Trust will then enter into 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”) (TDGF and/or RBC 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 Global High Yield Trust. This amount may be more or less than the original subscription price of the Units. The Trust will partially settle the Forward Agreement prior to the Termination Date in order to fund monthly distributions as well as redemptions of Units by Holders from time to time, payment for purchases of Units in the market and expenses of the Trust. 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. (“Standard & Poor’s”) or have an equivalent rating from Dominion Bond Rating Service Limited (“DBRS”) or other “approved credit rating organization” as defined in NI 81-102. 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”) are affiliates of TDGF and RBC, respectively, and are also Agents for the Offering.

The Global High Yield Portfolio will be acquired by the Global High Yield Trust and actively managed by PIMCO. The return to the Holders and the Trust will be dependent upon the return on the Global High Yield Trust and the Global High Yield Portfolio by virtue of the Forward Agreement. However, neither the Trust nor the Holders will have any ownership interest in the Global High Yield Trust or the Global High Yield 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.** 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); and
- (ii) **Purchasing Securities.** The Manager will not purchase securities other than through normal market facilities unless the purchase price therefor approximates the prevailing market price or is negotiated or established on an arm’s length basis.

The Trust will enter into the Forward Agreement and may engage in securities lending as described under “Management of the Trust — Forward Agreement” and “Management of the Trust — Securities Lending”. 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, the standard investment restrictions and practices set forth in NI 81-102 including the restriction which limits the purchase of securities of an issuer to not

more than 10% of NAV at the time of purchase. A copy of such standard investment restrictions and practices will be provided by the Manager to any person on request.

INVESTMENT GUIDELINES OF THE GLOBAL HIGH YIELD TRUST

Global High Yield Portfolio

The Global High Yield Portfolio will consist primarily of an actively managed portfolio of global high yield instruments, including corporate debt, emerging market debt and other high yield instruments. Although PIMCO expects to invest primarily in global high yield instruments for the Global High Yield Portfolio, PIMCO retains the flexibility to invest in investment grade fixed income assets as, for example, changes in the economic environment impact the investment outlook, subject to the investment restrictions described below under “Investment Restrictions of the Global High Yield Trust”.

PIMCO will select, monitor and manage the Global High Yield Portfolio subject to the investment restrictions relating thereto. Securities in the Global High Yield Portfolio will be selected by PIMCO based on their expected return relative to risk characteristics, taking into consideration factors such as credit quality and duration. The Global High Yield Portfolio may be diversified by company, industry, and sector. Canadian or U.S. government debt and/or cash equivalents may be held from time to time as market conditions dictate. PIMCO is expected to purchase securities for the Global High Yield Portfolio in the open market and such securities may or may not include securities in which the Agents have participated in the distribution or of issuers to which the Counterparties or their affiliates are lenders. See “The Investment Sub-Advisor”.

PIMCO will actively manage the Global High Yield Portfolio, subject to certain investment guidelines and restrictions as set out below and as agreed upon by the Manager, in its capacity as manager of the Global High Yield Trust, and PIMCO as set forth in the Investment Sub-Advisory Agreement. Such investment guidelines and restrictions include requirements relating to diversification, leverage and credit quality. See “Investment Restrictions of the Global High Yield Trust” below.

Investment Restrictions of the Global High Yield Trust

The investment activities of the Global High Yield Trust in relation to investments in individual fixed income instruments are to be conducted in accordance with, among other things, the following investment restrictions:

- (i) **Purchasing Securities.** PIMCO will not purchase securities other than through normal market facilities unless the purchase price therefor approximates the prevailing market price or is negotiated or established on an arm’s length basis.
- (ii) **Sector Diversification.** The Global High Yield Trust will not invest more than 15% of its total assets (determined at the time of purchase) in securities of issuers which are included in the same industry (as determined by Standard & Poor’s Research Insight database).
- (iii) **Concentration.** Apart from investments in sovereign debt and investments in PIMCO GIS Funds (as defined below), the Global High Yield Trust will restrict its investments in any one issuer to not more than 5% of its total assets (determined at the time of purchase) and other than the United States, will not invest more than 25% of its total assets in securities of issuers in any one country.
- (iv) **Control.** PIMCO will not purchase securities if after such purchase the Global High Yield Trust would hold more than 10% of the outstanding voting securities of that issuer.
- (v) **Investment in Rated Instruments.** The Global High Yield Trust will not invest more than 10% of its total assets (determined at the time of purchase) in securities rated at the time of purchase below B- by Standard & Poor’s or an equivalent rating by DBRS or Moody’s Investors Service, Inc. (“Moody’s”), or securities which have not been rated but which PIMCO reasonably believes would, if rated, have a rating less than such ratings.
- (vi) **Leverage.** The Global High Yield Trust will not borrow money or employ other forms of leverage except that the Global High Yield Trust may borrow or employ other forms of leverage in an aggregate

amount of up to 30% of the greater of: (i) the initial net asset value and (ii) the net asset value at the time the borrowing or other transaction is entered into, of the units of the Global High Yield Trust outstanding at such time. See “Loan Facility and Other Forms of Leverage” below.

- (vii) **Illiquid Securities.** The Global High Yield Trust will not invest more than 15% of its total assets (determined at the time of purchase) in “illiquid securities”. The term “illiquid securities” for this purpose means securities that cannot be disposed of within seven days in the ordinary course of business at approximately the amount at which the Global High Yield Trust has valued the securities.
- (viii) **Commodities.** The Global High Yield Trust will not purchase or sell commodities or commodity contracts except that the Global High Yield Trust may purchase and sell financial futures contracts and related options.
- (ix) **No Underwriting.** The Global High Yield Trust will not act as an underwriter of securities of other issuers, except to the extent that in connection with the disposition of portfolio securities it is deemed to be an underwriter.
- (x) **No Guarantee.** The Global High Yield Trust will not guarantee securities or obligations of another person or company.

In addition, PIMCO may purchase institutional class shares of certain funds included in PIMCO Funds: Global Investors Series plc (“PIMCO GIS Funds”), which invest in similar instruments as those expected to be purchased for the Global High Yield Portfolio. The family of PIMCO GIS Funds is an open-ended investment company with variable capital authorized by the Central Bank of Ireland under the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations. PIMCO or its affiliates serve as investment advisor for some of these funds. If an investment is made in such funds for the Global High Yield Portfolio, the investment management fees PIMCO would otherwise be entitled to receive will be reduced by the amount of fees it or any of its affiliates has received as manager of the PIMCO GIS Funds which is attributable to the investment by the Global High Yield Trust in such funds so that the investment will not result in a duplication of investment management fees payable to PIMCO. It is expected that the ability of the Global High Yield Trust to make investments in the PIMCO GIS Funds will provide portfolio management and operational efficiencies, improved diversification, and enable the Global High Yield Trust to become fully invested faster than would otherwise be possible.

With regard to any investments made in the PIMCO GIS Funds, while the investment activities of the PIMCO GIS Funds are not subject to the foregoing investment restrictions, PIMCO expects that the investment approach utilized in the applicable PIMCO GIS Fund is unlikely to deviate significantly from the foregoing investment restrictions, however, no assurances can be given in this regard.

Use of Derivative Instruments

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

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

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

The Global High Yield Trust may take long and short positions in a wide variety of other derivative instruments, including derivative instruments related to fixed income securities, and indexes of fixed income securities. For example, the Global High Yield Trust may purchase and sell put options and call options on securities and securities indexes, enter into interest rate and index futures contracts and purchase and sell options on such futures contracts.

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

The Global High Yield Trust may make short sales of securities as part of its overall portfolio management strategy and/or to offset potential declines in long positions in securities in the Global High Yield Portfolio. Short selling is the sale of a security not owned by the Global High Yield Trust, and the consequent requirement to borrow that security from a third party in order to settle the sale transaction. Short selling is often employed as an investment strategy in order to profit from an overpriced security or market.

The Global High Yield may also invest in interest rate futures contracts and options thereon. The Global High Yield Trust may purchase and sell futures contracts on corporate debt obligations (to the extent they are available) and U.S. Government securities, as well as purchase put and call options on such futures contracts. The Global High Yield Trust will only enter into futures contracts and futures options which are standardized and traded on a U.S. or other exchange, board of trade, or similar entity, or quoted on an automated quotation system. The Global High Yield Trust’s use of futures and futures options will be subject to receipt of any necessary regulatory approvals.

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

Loan Facility and Other Forms of Leverage

In order to provide PIMCO with a prudent level of leverage to enhance the Global High Yield Portfolio’s return, the Global High Yield Trust may borrow pursuant to a loan facility (the “Loan Facility”) from a chartered bank (the “Lender”). The Trustee may enter into the Loan Facility with the Lender, on behalf of the Global High Yield 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 Global High Yield Trust may also add leverage to the Global High Yield Portfolio by utilizing a variety of additional strategies, including but not limited to the use of reverse repurchase agreements, credit derivatives, and other derivative instruments.

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

Reverse repurchase agreements involve leverage risk and also the risk that the market value of the securities that the Global High Yield Trust is obligated to repurchase under an agreement may decline below the repurchase price. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, the Global High Yield Trust’s use of the proceeds of the agreement may be restricted

pending a determination by the other party, or its trustee or receiver, whether to enforce the Global High Yield Trust's obligation to repurchase the securities.

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

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

The aggregate amount of borrowings under the Loan Facility and other forms of leverage may not exceed 30% of the greater of: (i) the initial net asset value and (ii) the net asset value at the time the borrowing or other transaction is entered into, of the units of the Global High Yield Trust outstanding at such time. In the event that the total amount borrowed, or otherwise subject to leverage, by the Global High Yield Trust exceeds the 30% limit as a result of redemptions or other decrease in the number of units of the Global High Yield Trust, PIMCO will reduce indebtedness or other leverage on an orderly basis as soon as practicable so that the amount borrowed or otherwise subject to leverage does not exceed such limit.

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

Securities Lending

In order to generate additional returns, the Global High Yield Trust may lend Global High Yield Portfolio securities to brokers, dealers, and other financial institutions provided a number of conditions are satisfied, including that the loan is fully collateralized. The minimum level of collateralization in respect of a loan of Global High Yield Portfolio securities will be 100%. The Global High Yield Trust may also receive a fee or interest on the collateral, and may pay lending fees to a party arranging the loan.

THE GLOBAL HIGH YIELD DEBT MARKET

Global High Yield Debt Securities

The global high yield debt market has traditionally involved transactions among corporate issuers or the governments of developing countries and institutional and other sophisticated investors. Many of these transactions are completed on an exempt basis without any public distribution or listing of the offered securities. As a result, opportunities for individual Canadian investors seeking direct global high yield debt investments have been limited. Even where such opportunities have been made available to the public, the number of such opportunities has been so few that investors have been unable to realize the benefits of portfolio diversification.

The Trust has been established to provide a stable stream of monthly distributions consisting of capital gains and return of capital and to enable individual investors to obtain the benefits of access to professional management, risk/return assessment, credit analysis and the global high yield debt market while endeavouring to reduce the risks associated with that market through the pooling of invested funds and by diversification of the investments to which the return of the Units is linked across a broad range of global high yield debt securities. PIMCO expects that the Global High Yield Portfolio will participate in both the private and public markets for high yield debt securities.

High yield debt securities are generally considered to be debt securities that are rated at or below BB+ (a Standard & Poor's rating category) or below BBB (a DBRS rating category). High yield debt securities also include securities that are not formally rated by an "approved rating organization" as defined in NI 81-102 but that bear yields equivalent to comparable rated securities.

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

Investment Opportunities in the Global High Yield Debt Market

As of December 31, 2001, U.S. corporate high yield debt outstanding was estimated to be in excess of US\$575 billion, representing approximately 1,600 issuers including high yield debt securities issued by Canadian corporations. Over the last several years, high yield debt securities have become a distinct asset class with attractive risk/return characteristics. According to Moody's, as of the same date, high yield bonds accounted for approximately 17% of all corporate bonds outstanding in the United States. The principal amount of new high yield debt issues has exceeded US\$50 billion in each of the years 1996 through to 2001.

Securities of Canadian issuers represent approximately US\$17 billion of the outstanding U.S. high yield debt market and constitute a growing sector of the market. Canadian issuers in the U.S. high yield debt market number in excess of 75, diversified across a number of industries. Industries represented in the market include communications and media, conglomerates, consumer products, paper and forest products, health care, metals and minerals, gold and precious minerals, oil and gas, real estate and industrial products.

High yield corporate bond markets are beginning to develop outside of the United States, particularly in Europe. The European corporate high yield debt market has experienced robust growth; since 1997, the market value of the European corporate high yield debt market has grown from less than US\$1 billion to over US\$20 billion.

The Global High Yield Trust may invest in emerging markets debt securities, which are fixed income instruments of issuers that are economically tied to countries whose economies are defined as emerging or developing by the World Bank or the United Nations. These securities may be denominated in non-Canadian or U.S. currencies. A security is economically tied to an emerging market country if it is principally traded on the country's securities markets, or the issuer is organized or principally operates in the country, derives a majority of its income from operations within the country or has a majority of its assets in the country. Emerging markets are usually defined to include all of Latin America, Eastern Europe, Russia, and Asia excluding Japan. Emerging market debt is not a homogenous asset class as individual markets may have dramatically different growth prospects and risk factors.

As of May 31, 2002, the emerging market debt market was estimated to be approximately US\$200 billion, representing over 30 countries and over 130 instruments. With most emerging markets' ongoing need for substantial amounts of external capital, the market is expected to continue to expand rapidly.

Roughly 35% of the emerging market debt universe is rated investment grade (largely the result of recent ratings upgrades), approximately 45% is rated BB, while 20% is rated B or below by Standard & Poor's and/or Moody's. Historically, the asset class has offered high risk adjusted returns.

THE INVESTMENT SUB-ADVISOR

PIMCO

PIMCO is an investment advisory firm founded in 1971, which provides fixed income investment advisory and management services to large and medium sized, foreign and domestic, corporate and public clients, including a number of the largest pension funds in the United States. PIMCO's principal office is located at 840 Newport Center Drive, Suite 300, Newport Beach, California 92660. PIMCO is a Delaware limited liability company whose managing member is Allianz Dresdner Asset Management of America LP ("ADAM"). The membership interests of PIMCO as of January 1, 2002, were held 91% by ADAM and 9% indirectly through PIMCO Partners LLC, a California limited liability company, by the managing directors of PIMCO. ADAM and its subsidiaries, including PIMCO, are controlled by Allianz AG, a leading provider of financial services, particularly in Europe. PIMCO is operationally independent, and leads the global fixed income investment efforts of Allianz AG. PIMCO is one of the largest active bond managers in the United States, with approximately US\$254 billion in assets under management as of March 31, 2002, and a client list that includes over half of the 100 largest corporations in the United States. PIMCO is registered as an investment adviser with the United States Securities and Exchange Commission and as a commodity trading adviser with the Commodity Futures Trading Commission.

PIMCO's Portfolio Management Strategy

PIMCO has a risk conscious investment philosophy that emphasizes long-term, fundamental value. PIMCO manages fixed income assets across the entire risk/return spectrum, and has teams of specialists devoted to all sectors of the global bond market. The Global High Yield Trust will be able to draw on PIMCO's expertise and extensive resources.

PIMCO will invest the Global High Yield Portfolio primarily in the high yield sectors of the global fixed income market, including high yield corporate debt issued in both North America and elsewhere, emerging market debt, bank loans, commercial mortgage-backed securities, convertible bonds, and private placements, in order to endeavour to achieve the Trust's distribution target. The Global High Yield Portfolio will also have the discretion to utilize the higher grade sectors of the global fixed income market, including government, mortgage, asset-backed and investment grade corporate instruments.

PIMCO's strategy is to invest the Global High Yield Portfolio in those areas of the global high yield debt market that represent the best relative value. The first step in PIMCO's investment process is macroeconomic forecasting, to identify the outlook for fixed income assets in each of the major regions of the world over both longer term and shorter term horizons, including interest rate, volatility and credit trends. Those forecasts drive the relative value decisions and lead to geographic, sector, duration, yield curve, and credit quality targets for the Global High Yield Portfolio. Security selection is based on extensive fundamental research. Sector specialist teams conduct most security specific research at PIMCO, including credit research on corporate, asset-backed and sovereign bonds that have some element of default risk. They also direct quantitative specialists or financial engineers to develop or enhance analytical models to assist in measuring value and risk in an attempt to focus holdings in issues that offer attractive yields relative to PIMCO's assessment of their risk characteristics.

PIMCO believes in controlling risk by structuring portfolios that are well diversified and PIMCO employs extensive proprietary analytical tools to monitor and control risk. While a less disciplined approach to diversification may enhance performance in the short run, PIMCO believes that over the long run, broad diversification will be rewarded.

PIMCO's Approach to Global High Yield Debt Markets

PIMCO's approach to managing bonds and other income-producing securities not only focuses on income but also seeks to preserve and enhance the value of its portfolios.

PIMCO's approach to the global high yield debt market is consistent with its risk conscious approach toward the fixed income markets in general. PIMCO's practice is to focus on the upper quality tiers of the global high yield debt market. Historically, the upper tiers of the market have produced the highest risk adjusted

returns. PIMCO also exhibits a preference for issues that are senior within a capital structure or are secured with collateral.

PIMCO attempts to maximize total portfolio return or the combination of current yield and price change by focusing on corporate and sovereign issuers that it believes have good prospects for price appreciation due to stable or improving credit fundamentals. Identifying these issuers combines credit research, industry analysis, and macroeconomic forecasting. Intensive industry specific research is aimed at identifying industries undergoing structural or competitive changes that will enhance profits and cash flow. PIMCO's bond selection process finishes with thorough, traditional, fundamental credit research on companies within the industries which PIMCO finds attractive. PIMCO's analysts rate each company based on its financial condition, the feasibility of its strategic plan, and the quality of management, and all companies considered for purchase are subjected to on-site visits.

PIMCO's approach to emerging market portfolio management is also consistent with its risk conscious approach to overall fixed income investing, focusing greater emphasis on countries with strong and improving credit profiles. First, PIMCO identifies countries with strong underlying credit fundamentals (including strong fiscal positions, stable/improving political situations, comfortable reserve levels, and debt profiles that can withstand financial shocks, among others). Then, PIMCO considers the impact of its global outlook on these countries, including prospects for demand from advanced economies, commodity prices, interest rate trends and other components of the external environment. Finally, PIMCO evaluates technical conditions to identify both the upside and the imbalances that could potentially lead to market dislocations. This disciplined multi-pronged framework will provide the basis for PIMCO's country weighting, duration, curve and instrument selection decisions, as well as relative value assessments.

MANAGEMENT OF THE TRUST

The Manager

The Manager will act as the manager of the Trust and manager and investment advisor of the Global High Yield Trust. The Manager is a wholly-owned subsidiary of Skylon Capital. 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 owned by Skylon High Yield Trust and advised by Marret Asset Management Inc., 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 Global High Yield Trust to holders of a corresponding number of units of the Global High Yield Trust upon termination of the Global High Yield Trust in exchange for the Common Share Portfolio. Amounts paid by the Global High Yield Trust to its unitholders will be funded by the net realized proceeds of disposition of the Global High Yield Portfolio (after satisfying its liabilities, if any). The expenses of the Global High Yield Trust include the annual management fee payable to the Manager, in its capacity as manager of the Global High Yield Trust. The Trust will not enter into the Forward Agreement unless the aggregate net asset value of the corresponding number of units of the Global High Yield Trust that will determine the purchase price of the Common Share Portfolio under the Forward Agreement will be, at the time the Global High Yield Trust is capitalized, equal to or greater than the initial NAV.

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. The amount payable by the Counterparties for physical delivery of the Common Share Portfolio may be more or less than the original subscription price of the Units. 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 Global High Yield 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.

In order 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 and expenses of the Trust, the terms of the Forward Agreement will provide that the Forward Agreement may be partially 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; or (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 intends to exercise its right to partially settle the Forward Agreement prior to the Termination Date in order 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 and expenses of the Trust. See "Risk Factors".

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 lending portfolio securities.

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, 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 acquire the Common Share Portfolio and enter into the Forward Agreement on behalf of the Trust. In addition, the Manager will monitor the Trust's investment strategy to ensure compliance with the Investment Guidelines, and that the net proceeds of the Offering are invested as described under "Use of Proceeds".

The 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 an annual management fee in an amount equal to 0.25% of the NAV calculated and payable monthly in arrears plus applicable taxes and an amount equal to the service fee (the “Service Fee”) payable to registered dealers. As compensation for management services rendered to the Global High Yield Trust, the Manager is entitled to receive an annual management fee in an amount equal to 0.85% of the net asset value of the Global High Yield Trust calculated and payable monthly in arrears, plus applicable taxes. The Manager, in its capacity as manager of the Global High Yield Trust, is responsible for payment of the investment management fees of PIMCO. In the event that the Trust does not distribute at least \$0.1510 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 and the Global High Yield 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 \$0.1510 per Unit, subject to a minimum aggregate monthly management fee for services rendered as manager of the Trust and the Global High Yield Trust of $\frac{1}{12}$ of 0.18% of the NAV plus $\frac{1}{12}$ of 0.62% of the net asset value of the Global High Yield Trust. 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 \$0.1510 per Unit. Accrued fees will not be paid to 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 Global High Yield Trust unless an amount equal to the original subscription price is returned to the Holders. See “Fees and Expenses — Management Fees”. The amount of the management fees payable to the Manager for management services rendered to the Global High Yield Trust will also be reduced to the extent that the investment management fees payable to PIMCO under the Investment Sub-Advisory Agreement are reduced in connection with an investment by the Global High Yield Trust in PIMCO GIS Funds. Any such reduction will not exceed the amount of PIMCO’s investment management fee under the Investment Sub-Advisory Agreement. See “Investment Guidelines of the Global High Yield Trust — Investment Restrictions of the Global High Yield Trust”.

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 assist the Manager in performing its services under the Trust Agreement. The independent members of the Advisory Board will be Philip Armstrong and Iain Robb. 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. 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.

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
COLIN S. MERCIER Toronto, Ontario	President and Director	President of Skylon Capital
ANDREW A. MCKAY Bridgetown, Barbados	Chief Financial Officer and Director	Chief Financial Officer of Skylon Capital
GEOFFREY D. HORTON* Toronto, Ontario	Vice President	Vice President of the Manager
SUSAN E. COLEMAN Toronto, Ontario	Chief Investment Officer and Director	Chief Investment Officer of the Manager

* Subject to regulatory approval

Gordon A. McMillan is the Chief Executive Officer and a Director of the Manager. Mr. McMillan also serves as Chief Executive Officer and Director of Skylon Capital, a private Ontario-based investment management firm holding company and VentureLink Capital Corp. (“VentureLink Capital”), a private Ontario-based venture capital firm. Prior to co-founding VentureLink Capital, Mr. McMillan was the founder and Chief Executive Officer of Triax Capital Holdings Ltd., 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 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 Administrators.

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 Manager, 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 the fund's 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 is a Chartered Financial Analyst.

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 is a Chartered Financial Analyst.

Conflict of Interest

The services of the Manager and its officers and directors are not exclusive to the Trust. The Manager or any of its affiliates and associates may, at any time, engage in the promotion, management or investment management of any other fund or trust which invests primarily in securities in the Common Share 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.

MANAGEMENT OF THE GLOBAL HIGH YIELD TRUST

The Manager

The Manager will be responsible for providing investment advisory and portfolio management services to the Global High Yield Trust. The Manager, in its capacity as manager and investment advisor of the Global High Yield Trust, will be entitled to receive annual management fees. See “Fees and Expenses”.

The Investment Sub-Advisor

The Manager has retained PIMCO as investment sub-advisor to provide investment advisory and portfolio management services in respect of the Global High Yield Trust. PIMCO will manage the Global High Yield Trust’s investment portfolio in a manner consistent with the Investment Sub-Advisory Agreement described below. The Manager is responsible for investment advisory and portfolio management services required by the Global High Yield Trust and, in accordance with applicable securities legislation, the Manager has responsibility for the investment advice given and portfolio management services provided by PIMCO. See “The Investment Sub-Advisor — PIMCO”.

Bill Gross, a founder of PIMCO, serves as Managing Director and Chief Investment Officer of PIMCO. In his role as Chief Investment Officer, he serves as the head of the PIMCO investment committee, which oversees setting investment policy decisions, including duration positioning, yield curve management, sector rotation, credit quality and overall corporate portfolio composition, for all portfolios and strategies of PIMCO, including the Global High Yield Portfolio. The portfolio manager of PIMCO who will have primary responsibility for the day-to-day portfolio management of the Global High Yield Portfolio will be Curtis Mewbourne. Other key members of PIMCO who will be involved in the management and servicing of the Global High Yield Portfolio include: Mohamed El-Erian, Margaret Isberg, Raymond Kennedy, David Hinman and Mark Hudoff.

Services to be Provided by the Investment Sub-Advisor

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

The Manager is responsible for ensuring that the provisions of the Investment Sub-Advisory Agreement are consistent with the investment guidelines and restrictions relating to the Global High Yield 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 Global High Yield Trust and providing PIMCO with specific investment parameters, including identification of permissible investments, that comply with such laws and interpretations. See “Investment Guidelines of the Global High Yield Trust — Investment Restrictions of the Global High Yield Trust”.

The Investment Sub-Advisory Agreement

The Investment Sub-Advisory Agreement between the Manager and PIMCO, unless terminated as described below, will continue until the Termination Date. The Manager may terminate the Investment Sub-Advisory Agreement: (i) upon 60 days’ notice; (ii) in the event that PIMCO is in material breach of the Investment Sub-Advisory Agreement (a “Material Breach”) and the Material Breach has not been cured within 20 Business Days’ notice thereof to PIMCO; (iii) if there is a dissolution and commencement of winding-up of PIMCO; (iv) if PIMCO becomes bankrupt or insolvent or makes a general assignment for the benefit of its

creditors or a receiver is appointed in respect of PIMCO or a substantial portion of its assets; (v) if the assets of PIMCO become subject to seizure or confiscation by any public or governmental organization; (vi) if PIMCO has lost any registration, license or other authorization required by it to perform the services delegated to it thereunder; or (vii) if PIMCO has acted with wilful misconduct or negligence and as a result of such action there has been a material adverse effect on the Global High Yield Portfolio.

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

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

In the event that the Investment Sub-Advisory Agreement is terminated as provided above, the Manager, as manager of the Global High Yield Trust, shall promptly appoint a successor investment sub-advisor to carry out the activities of PIMCO until a meeting of its unitholders is held to confirm such appointment.

The Manager, in its capacity as manager of the Global High Yield Trust, is responsible for payment of the investment management fees of PIMCO. See "Fees and Expenses — Management Fees".

Key Members of the Investment Sub-Advisor

The following directors and officers of PIMCO are among those who will be engaged in providing advice and services under the Investment Sub-Advisory Agreement:

Curtis A. Mewbourne is a Senior Vice President and portfolio manager of PIMCO and Emerging Markets specialist. He joined PIMCO in 1999, having spent the previous seven years trading Emerging Markets fixed income securities at Salomon Smith Barney Inc. and Lehman Brothers Inc. Mr. Mewbourne has ten years of investment experience, and holds a bachelor's degree in Engineering from the University of Pennsylvania.

Mohamed A. El-Erian is a Managing Director of PIMCO, senior member of PIMCO's portfolio management and investment strategy groups, and head of the firm's emerging market portfolio management team. He joined the firm in 1999, having been associated with Salomon Smith Barney Inc. in London from 1998-1999 as a

managing director heading the emerging markets economic research team. He previously spent 15 years with the International Monetary Fund, leading policy work on debt and country issues. He has published widely on international economic topics and has appeared on CNN, CNBC, Reuters, and Bloomberg television. In 2000, he was voted one of the “Ten Most Important Executives in LatAm Borrowing” in the poll conducted by *Emerging Markets*. Dr. El-Erian serves on several boards, including the Emerging Market Trades Association and the Emerging Markets Creditors Association. He holds doctorate and master’s degrees in Economics from Oxford University, having completed his undergraduate degree at Cambridge University.

Margaret Isberg is a Managing Director of PIMCO and head of PIMCO’s consultant relations group. Ms. Isberg joined the firm in 1983, having spent the first five years as a portfolio manager in the fixed income group. She has previously held positions as an options specialist with Dominion Securities Ames Limited (now RBC Dominion Securities Inc.) and a research analyst with the Financial Post. She has 24 years of investment experience and holds a bachelor’s degree in Economics from the University of Guelph and a Master of Business Administration in Finance from York University in Toronto.

Raymond G. Kennedy is a Managing Director and Executive Vice President of PIMCO and senior member of PIMCO’s portfolio management and investment strategy groups. He also manages high yield funds and overseas bank loan trading and collateralized debt obligations. Mr. Kennedy joined the firm in 1996, having previously been associated with The Prudential Insurance Company of America as a private placement asset manager, where he was responsible for investing and managing a portfolio of investment grade and high yield privately-placed fixed income securities. Prior to that, he was a consultant for Arthur Andersen LLP in Los Angeles and London. He has over 15 years of investment management experience and holds a bachelor’s degree from Stanford University and a Master of Business Administration from the Anderson Graduate School of Management at the University of California, Los Angeles.

David C. Hinman is an Executive Vice President of PIMCO and portfolio manager. He focuses on high-yield corporate bonds and structured credit products. He joined PIMCO in 1995, having been previously associated with Merrill Lynch & Co., Inc. in New York where he underwrote high yield corporate bonds. Prior to that, he was a credit analyst with First Union Corporation (now Wachovia Corporation). Mr. Hinman has nine years of investment experience and holds a bachelor’s degree in Finance from the University of Alabama and a Master of Business Administration in Finance and Accounting from The Wharton School of the University of Pennsylvania.

Mark T. Hudoff is an Executive Vice President of PIMCO, Director of Credit Research — Europe and a portfolio manager. Mr. Hudoff joined the firm in 1996, having been previously associated with the Bank Credit Analyst Research Group where he worked as a fixed income strategist. He has also been associated with International City/County Management Association, Quantitative Risk Management, Inc. and Martin Marietta Corporation (now Lockheed Martin Corporation) as a financial analyst. He has 14 years of investment experience, and holds a bachelor’s degree in Economics from Arizona State University and a Master of Business Administration in Finance from the University of Chicago School of Business.

Conflict of Interest

The services of PIMCO and its officers and directors are not exclusive to the Global High Yield Trust. PIMCO may serve as an investment manager for other investment vehicles with similar investment objectives as the Global High Yield Trust and may at certain times be simultaneously seeking to purchase or dispose of investments for its respective account, the Global High Yield Trust, any similar entity for which it serves as manager or advisor and for its other clients or affiliates. In addition, the Global High Yield Portfolio may be invested in the PIMCO GIS Funds.

Neither PIMCO nor any of its affiliates is under any obligation to offer investment opportunities of which they become aware to the Global High Yield Trust or to inform the Global High Yield Trust of any investment before offering any investments to other funds or accounts that PIMCO and/or its affiliates manage or advise. Furthermore, PIMCO and/or its affiliates may make an investment on their own behalf or on behalf of any account that they manage or advise without offering the investment opportunity or making any investment on behalf of the Global High Yield Trust. Affirmative obligations may exist or may arise in the future, whereby PIMCO and/or its affiliates are obligated to offer certain investments to funds or accounts that they manage or

advise before or without PIMCO offering those investments to the Global High Yield Trust. PIMCO and/or its affiliates, in connection with their other business activities, may acquire material non-public confidential information that may restrict PIMCO from purchasing assets or selling assets for itself or its clients (including the Global High Yield Trust) or otherwise using such information for the benefit of its clients or itself. PIMCO will endeavour to resolve conflicts with respect to investment opportunities in a manner which it deems equitable to the extent possible under the prevailing facts and circumstances. See “Risk Factors — Conflicts of Interest”.

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 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 Trustee, 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 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 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 on-going 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, as 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 Global High Yield Trust.

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 Global High Yield Trust and the Counterparties, to consist of an amount equal to the redemption proceeds for a corresponding number of units of the Global High Yield Trust.

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 of capital gains and return of capital of \$0.1510 per Unit (\$1.81 per annum to yield 7.25% on the subscription price of \$25.00 per Unit) the Trust will endeavour to make monthly distributions to Holders of record on or about the last Business Day of each month (each, a "Record Date"). The Trust expects that the initial distribution will be payable to Holders of record on August 30, 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 Global High Yield Trust. Under the Forward Agreement, if the Global High Yield 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 would 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, having regard to the investment objectives of the Trust, the net realized capital gains and net income of the Trust, if any, during the calendar month and in the year to date, the net realized capital gains and net income of the Trust anticipated in the balance of the year and distributions made in previous months.

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. These proceeds will be received by the Trust from the Counterparties under the Forward Agreement.

The Manager anticipates that, of the distributions anticipated to be made in the initial period of the Trust's life, only a very small portion would represent capital gains, with the balance representing return of capital. Thereafter the Manager anticipates that the proportion of capital gains to return of capital will increase as the Trust disposes of more Common Share Portfolio securities on the partial settlement of the Forward Agreement. The actual amounts of capital gains distributed to Holders in each year will depend on the proceeds of disposition realized by the Trust on the disposition of Common Share Portfolio securities under the Forward Agreement and the adjusted cost base of such securities. See "Canadian Federal Income Tax Considerations".

The Trust intends that the aggregate distributions of net income and net capital gains made in each year will be sufficient to ensure that the Trust will not be liable for income tax thereon under the *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 Global High Yield Portfolio, which depends on a number of factors, including the value of the securities in the Global High Yield Portfolio, the performance of the global high yield debt market generally and interest rates.

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 Holder approval if it would eliminate the rights of Holders to redeem their Units on the Valuation Date in any year at a Unit Redemption Price equal to the NAV per Unit or if it would result in the Trust being a mutual fund for securities law purposes. Any redemptions based on a redemption price determined with reference to the NAV more frequently than once a year would, based on the 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).

In order 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 and expenses of the Trust, the terms of the Forward Agreement will provide that the Forward Agreement may be partially 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, options exchange or futures exchange or other market within or outside Canada on which high yield debt securities are listed and traded, or on which derivatives are traded, if those securities or derivatives represent more than 50% by value, or underlying market exposure, of the total assets of the Common Share Portfolio or Global High Yield Portfolio without allowance for liabilities and if those securities or derivatives are not traded on any other exchange or market that represents a reasonably practical alternative for the Trust; or (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 Global High Yield 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 Global High Yield 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 Global High Yield Trust’s respective assets as set forth below.

The total assets of the Trust consist of the aggregate value of the assets of 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 Global High Yield Portfolio, the NAV is linked to the value of the Global High Yield Portfolio. The total assets of the Global High Yield Portfolio consist of the aggregate value of the Global High Yield Portfolio assets. PIMCO will notify the Valuation Agent of any adjustments in the holdings of the Global High Yield Portfolio. The Manager, together with PIMCO, 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 Global High Yield Trust from the total assets of the Trust or the Global High Yield Trust, as applicable. The total assets of the Trust and the Global High Yield 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) the value of any bonds, debentures and other debt obligations will be valued by taking the average of the bid and ask prices on the NAV Valuation Date at such times as the Valuation Agent, in its discretion, deems appropriate. Amounts drawn under the Loan Facility will be valued at par. Short-term investments, including notes and money market instruments, will be valued at cost plus accrued interest;
- (e) if a NAV Valuation Date is not a Business Day, then the securities and other property will be valued as if such NAV Valuation Date was the preceding Business Day;

- (f) if an investment cannot be valued under the foregoing rules or if the foregoing rules are at any time considered by the Valuation Agent to be inappropriate under the circumstances, then notwithstanding the foregoing rules, the Valuation Agent shall make such valuation as it considers fair and reasonable; and
- (g) the value of all assets quoted or valued in terms of foreign currency, the value of all funds on deposit and contractual obligations payable 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 provided by the Manager to Holders on request by calling toll-free 1-877-711-2440 or through the Internet at www.skyloncapital.com.

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

In discharging its valuation duties, the Valuation Agent shall be entitled to rely on reports prepared 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, 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 (such proposals referred to hereafter as the "Tax Proposals"). This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, nor does it take into account provincial 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 the investing of its funds in property (other than real property or interests in real property), 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 is restricted to the investing of its funds in property, 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 Act provides for a special tax on designated income of certain trusts which have designated beneficiaries. This special tax does not apply to a trust for a taxation year if the trust is a mutual fund trust throughout such year. Accordingly, provided that the Trust qualifies as a mutual fund trust throughout a taxation year, it will not be subject to the special tax for such taxation year.

Taxation of Holders

A Holder will generally be required to include in computing income for a taxation year the amount of the Trust’s net income for the taxation year, including net realized taxable capital gains, paid or payable to the Holder in the taxation year. The non-taxable portion of the Trust’s net realized capital gains paid or payable (whether in cash or in Units) to a Holder in a taxation year will not be included in the Holder’s income for the year. Any other amount in excess of the Trust’s net income for a taxation year paid or payable to the Holder in the year will not generally be included in the Holder’s income. Such amount, however, will generally reduce the adjusted cost base of the Holder’s Units, except to the extent such amount is the non-taxable portion of a capital gain of the Trust the taxable portion of which was designated to the Holder.

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 or about the Termination Date.

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 capital gains distribution (as contemplated under "Trust Agreement and Description of Units") will generally be equal to the amount of the net income or 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, 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	\$150,000,000	\$ 20,000,000
Agents' fee	\$ 7,875,000	\$ 1,050,000
Expenses of issue	\$ 750,000	\$ 750,000
Net proceeds to the Trust	<u>\$141,375,000</u>	<u>\$ 18,200,000</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 Common Share Portfolio which will be subject to the Forward Agreement.

PLAN OF DISTRIBUTION

Pursuant to an agency agreement (the "Agency Agreement") among TDSI, CIBC World Markets Inc., RBC DS, BMO Nesbitt Burns Inc., National Bank Financial Inc., Scotia Capital Inc., HSBC Securities (Canada) Inc., Raymond James Ltd., Canaccord Capital Corporation, Desjardins Securities Inc., Dundee Securities Corporation and Yorkton 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 \$25.00 per Unit. The Agents will receive a fee equal to \$1.3125 for each Unit sold and will be reimbursed for reasonable out-of-pocket expenses incurred by them. The Agents may form a sub-agency group including other qualified investment dealers and determine the fee payable to the members of such group, which fee will be paid by the Agents out of their fees. While the Agents have agreed to use their best efforts to sell Units offered hereby, the Agents will not be obligated to purchase Units which are not sold.

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

Proceeds from subscriptions will be held by the Agents in trust in a segregated account until closing. If subscriptions for a minimum of 800,000 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 Global High Yield 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 July 24, 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 September 24, 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.

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 \$750,000 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 Global High Yield Trust. As compensation for management services rendered to the Trust, the Manager is entitled to receive an annual management fee in an amount equal to 0.25% of the NAV calculated and payable monthly in arrears plus applicable taxes and an amount equal to the Service Fee payable to registered dealers. As compensation for management services rendered to the Global High Yield Trust, the Manager is entitled to receive an annual management fee in an amount equal to 0.85% of the net asset value of the Global High Yield Trust calculated and payable monthly in arrears, plus applicable taxes. The Manager, in its capacity as manager of the Global High Yield Trust, is responsible for payment of the investment management fees of PIMCO.

In the event that the Trust does not distribute at least \$0.1510 per Unit in respect of any month commencing with the second month following the month in which the closing of the Offering occurs, the management fees payable to the Manager, in its capacity as manager of the Trust and the Global High Yield 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 \$0.1510 per Unit, subject to a minimum aggregate monthly management fee for services rendered as manager of the Trust and the Global High Yield Trust of $\frac{1}{12}$ of 0.18% of the NAV plus $\frac{1}{12}$ of 0.62% of the net asset value of the Global High Yield Trust. 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 \$0.1510 per Unit. Accrued fees will not be paid to 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 Global High Yield Trust unless an amount equal to the original subscription price is returned to the Holders. The amount of the management fees payable to the Manager for management services rendered to the Global High Yield Trust will also be reduced to the extent that the investment management fees payable to PIMCO under the Investment Sub-Advisory Agreement are reduced in connection with an investment by the Global High Yield Trust in PIMCO GIS Funds. Any such reduction will not exceed the amount of PIMCO's investment management fee under the Investment Sub-Advisory Agreement. See "Investment Guidelines of the Global High Yield Trust — Investment Restrictions of the Global High Yield Trust".

On-Going Expenses

The Trust will pay to the Counterparties a fee under the Forward Agreement of approximately 0.65% per annum of the NAV per Unit multiplied by the number of Units outstanding at such time, 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 Global High Yield 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; on-going regulatory filing fees and other fees; any reasonable out-of-pocket expenses incurred by the Manager or its agents in connection with their on-going obligations to the Trust or the Global High Yield 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 Global High Yield Trust. The Manager estimates that administration and operating costs for the Trust and the Global High Yield Trust will be approximately \$125,000 and \$200,000, respectively, per annum (assuming an offering size of approximately \$100 million). A small amount of additional administration and operating costs may arise as a result of the establishment of both the Trust and the Global High Yield Trust (as compared to other investment trust offerings where only one trust is established). Each of the Trust and the Global High Yield 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 MANAGEMENT IN MATERIAL TRANSACTIONS

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

RISK FACTORS

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

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

There is no assurance that the Trust will be able to achieve its monthly distribution objective or its objective to endeavour to preserve and enhance the NAV in order to return at least the original subscription price of the Units to Holders on or about the Termination Date or that the Global High Yield 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 in order 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 and expenses of the Trust. Accordingly, the Trust’s ability to pay distributions will be influenced by the performance of the Global High Yield Portfolio, as the return to the Holders and the Trust will be dependent upon the return on the Global High Yield Trust and the Global High Yield Portfolio by virtue of the Forward Agreement.

There is no guarantee that the Global High Yield 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 instruments in the Global High Yield Portfolio, the performance of the global high yield debt market generally, interest rates, and foreign currency exposure. Fluctuations in the market values of the instruments in the Global High Yield Portfolio may occur for a number of reasons beyond the control of PIMCO. 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.

Global High Yield Debt Securities and Emerging Market Debt Securities

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

The Global High Yield Portfolio may, at any time, include investments in emerging market countries. Such investments involve certain risks not typically associated with investing in domestic or U.S. securities, and impose risks greater than, or in addition to, risks of investing in foreign, developed countries. These risks include: greater risks of nationalization or expropriation of assets or confiscatory taxation; currency devaluations and other currency exchange rate fluctuations; greater social, economic and political uncertainty and instability (including the risk of war); more substantial government involvement in the economy; less government supervision and regulation of the securities markets and participants in those markets; controls on foreign investment and limitations on repatriation of invested capital and on the Global High Yield Trust’s ability to exchange local currencies; unavailability of currency hedging techniques in certain emerging market countries; the fact that companies in emerging market countries may be smaller, less seasoned and newly organized companies; the difference in, or lack of, auditing and financial reporting standards, which may result in unavailability of material information about issuers; the risk that it may be more difficult to obtain and/or enforce a judgement in a court outside Canada or the United States; and greater price volatility, substantially less liquidity and significantly smaller market capitalization of securities markets.

In addition, a number of emerging market countries restrict, to various degrees, foreign investment in securities, and high rates of inflation and rapid fluctuations in inflation rates have had, and may continue to have, negative effects on the economies and securities markets of certain emerging market countries. Also, any change in the leadership or politics of emerging market countries, or the countries that exercise a significant influence over those countries, may halt the expansion of or reverse the liberalization of foreign investment policies now occurring and adversely affect existing investment opportunities.

Foreign Market Exposure

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

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 Global High Yield 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 Global High Yield 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 "Management 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.

The Global High Yield Trust may also engage in securities lending, as described under "Investment Guidelines of the Global High Yield Trust — Securities Lending", and is subject to the same risks described above.

Leverage

One element of the Global High Yield Trust's investment strategy is the utilization of borrowings under the Loan Facility or the employment of other forms of leverage to make investments in additional instruments. The obligations under the Loan Facility or other forms of leverage may be secured by the Global High Yield Portfolio. By adding additional leverage, these strategies have the potential to enhance returns but also involve additional risks. There can be no assurance that the leveraging strategy employed by the Global High Yield Trust will enhance returns. The use of leverage may reduce returns (both distributions and capital) to Holders. If the instruments in the Global High Yield 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. In addition, if the aggregate amount of borrowings under the Loan Facility and other forms of leverage exceed at any time 30% of the greater of: (i) the initial net asset value and (ii) the net asset value at the time the borrowing or other transaction is entered into, of the units of the Global High Yield Trust then outstanding as a result of redemptions or other decrease in the number of units of the Global High Yield Trust, the Global High Yield Trust will be required to sell investments or enter into other transactions in order to reduce the aggregate amount of borrowings or other leverage to such 30% level. Such transactions may be required to be effected at prices or on terms which may adversely affect the value of the Global High Yield Portfolio and, consequently, the return to the Trust by virtue of the Forward Agreement. However, the Global High Yield Trust will not be required to reduce borrowings or other leverage as a result of decreases in the net asset value of the units of the Global High Yield Trust occurring otherwise than as a result of a decrease in the number of units of the Global High Yield Trust outstanding. If the net asset value of the Global High Yield Trust decreases otherwise than as a result of a decrease in the number of units of the Global High Yield Trust outstanding, the percentage of leverage in the Global High Yield Portfolio may constitute more than 30% of the net asset value of the outstanding units of the Global High Yield Trust from time to time.

The interest expense and banking fees incurred in respect of a Loan Facility, or expenses and fees incurred in respect of other forms of leverage, may exceed the incremental capital gains/losses and income generated by the incremental investment of Global High Yield Portfolio instruments. In addition, the Global High Yield Trust may not be able to renew a Loan Facility or other form of leverage on acceptable terms. PIMCO expects that the

Global High Yield Trust may utilize the maximum amount of leverage permitted by the investment restrictions described under “Investment Guidelines of the Global High Yield Trust”.

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.

Reliance on Investment Sub-Advisor, Manager and Key Personnel

Performance of the Global High Yield Portfolio will be dependent on the Manager, which acts as manager of both the Trust and the Global High Yield Trust, and PIMCO, which provides investment advisory and portfolio management services to the Global High Yield Trust with respect to the Global High Yield Portfolio pursuant to the Investment Sub-Advisory Agreement. Mr. Mewbourne, a portfolio manager of PIMCO, will be principally responsible for providing such investment advisory and portfolio management services. In the event that all or substantially all of the portfolio managers of PIMCO, including Mr. Mewbourne, cease to be employed by PIMCO, or if PIMCO ceases to be the investment sub-advisor, the performance of the Global High Yield Portfolio may be adversely affected.

Foreign Currency Exposure

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

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

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

As the Trust intends to provide Holders with a stable stream of tax efficient monthly distributions consisting of capital gains and return of capital of \$0.1510 per Unit (\$1.81 per annum to yield 7.25% per annum on the original subscription price of the Units (\$25.00 per Unit)), the market price of Units may be affected by the level of interest rates prevailing from time to time.

Illiquid Securities

If PIMCO is unable to dispose of some or all of the Global High Yield Portfolio securities prior to the Termination Date, the Trust may experience a delay in the receipt of the payment by the Counterparties under the Forward Agreement until such time as PIMCO is able to dispose of such Global High Yield Portfolio securities. If PIMCO determines that it is appropriate to acquire certain securities for the Global High Yield

Trust, PIMCO may be unable to acquire the number of such securities, or to acquire such securities at a price acceptable to PIMCO, if the market for such securities is particularly illiquid.

Derivatives Risk

The Global High Yield Portfolio may use derivatives for any purpose including, among other things, as a substitute for taking a position in the underlying asset or as part of a strategy designed to reduce or increase exposure to other risks, such as interest rate or currency risk. The Global High Yield Portfolio's use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives are subject to a number of risks, such as liquidity risk, interest rate risk, market risk, credit risk, leveraging risk, counterparty risk and management risk. They also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index. If the Global High Yield Trust invests in a derivative instrument, it could lose more than the principal amount invested.

Conflicts of Interest

The Manager, PIMCO, their 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 global high yield instruments.

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 Global High Yield 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 Global High Yield Trust. Although officers, directors and professional staff of PIMCO will devote as much time to the Global High Yield Trust as PIMCO deems appropriate to perform its duties in accordance with the Investment Sub-Advisory Agreement, the staff of PIMCO may have conflicts in allocating its time and services among the Global High Yield Portfolio and the other portfolios of PIMCO.

In addition, PIMCO and/or its affiliates, in connection with their other business activities, may acquire material non-public confidential information that may restrict PIMCO from purchasing assets or selling assets for itself or its clients (including the Global High Yield Trust) or otherwise using such information for the benefit of its clients or itself.

Status of the Trust and the Global High Yield 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 and 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 of the Trust".

Certain restrictions imposed on mutual funds under Canadian securities laws, including NI 81-102, do not apply to the Global High Yield Trust. See "Investment Guidelines of the Global High Yield Trust — Investment Restrictions of the Global High Yield Trust".

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.

Legal and Statutory Rights

PIMCO is a limited liability company under the laws of the State of Delaware. The foreign organization and offices of PIMCO and the fact that all or a substantial portion of its assets are situated outside of Canada may make it more difficult to enforce legal rights against PIMCO than if it were organized and resident in Canada. Although the custodian of the Global High Yield Portfolio is in Canada and some of the assets of the Global

High Yield Trust may be held in Canada, the majority of the Global High Yield Trust's assets may be held in accounts with sub-custodians in other jurisdictions. Accordingly, there may be additional defences available to any judgement obtained by the Global High Yield Trust in Canada which may affect enforcement in any such jurisdictions.

Liability of Holders

The Trust is a unit trust and, as such, the Holders do not receive the protection of statutorily mandated limited liability as in the case of shareholders of most Canadian corporations. There is no guarantee therefore, that Holders could not be made party to legal action in connection with the Trust. However, the 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 and the Manager shall use reasonable means to cause the Trust's operations to be conducted in such a way as to minimize any such risk and, in particular, where feasible, to cause every written contract or commitment of the Trust to contain an express disavowal of liability of Holders.

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

MATERIAL CONTRACTS

Material contracts 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 "Trust Agreement and Description of Units" and "The Trustee";
- (b) 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";
- (c) 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";
- (d) 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";
- (e) 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";
- (f) the Forward Agreement made between the Manager on behalf of the Trust and the Counterparties referred to under "Investment Guidelines of the Trust"; and
- (g) 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 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 Fund Services Toronto Inc., as valuation agent, will perform certain valuation services for the Trust pursuant to a valuation services agreement.

PURCHASERS' STATUTORY RIGHTS

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

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 Global High Yield Trust. See “Plan of Distribution”.

AUDITORS' REPORT

To the Trustee of
SKYLON GLOBAL CAPITAL YIELD TRUST:

We have audited the statement of financial position of Skylon Global Capital Yield Trust as at June 26, 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 June 26, 2002 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
June 26, 2002

(Signed) ERNEST & YOUNG LLP
Chartered Accountants

COMPILATION REPORT

To the Trustee of
SKYLON GLOBAL CAPITAL YIELD TRUST:

We have reviewed, as to compilation only, the accompanying *pro forma* statement of financial position of Skylon Global Capital Yield Trust as at June 26, 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
June 26, 2002

(Signed) ERNST & YOUNG LLP
Chartered Accountants

SKYLON GLOBAL CAPITAL YIELD TRUST
STATEMENT OF FINANCIAL POSITION
June 26, 2002

	Actual	Pro Forma
		(unaudited) (Note 4)
ASSETS		
Cash	\$25.00	—
Investment in portfolio securities	—	\$18,200,000
Total	\$25.00	\$18,200,000
HOLDERS' EQUITY		
Holders' equity (Notes 1 and 4):		
Units (actual 1 Unit; <i>pro forma</i> 800,000 Units, net of issue costs)	\$25.00	\$18,200,000

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

Skylon Global Capital Yield Trust (the "Trust") was established under the laws of the Province of Ontario on June 26, 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 June 26, 2002 the Trust issued 1 Unit for \$25 cash.

2. Agency Agreement and Custodian

The Trust has engaged TD Securities Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., National Bank Financial Inc., Scotia Capital Inc., HSBC Securities (Canada) Inc., Raymond James Ltd., Canaccord Capital Corporation, Desjardins Securities Inc., Dundee Securities Corporation and Yorkton Securities Inc. (collectively, the "Agents") to offer for sale to the public pursuant to a prospectus dated June 26, 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 an annual management fee in an amount equal to 0.25% of the net asset value of the Trust calculated and payable monthly in arrears plus applicable taxes and an amount equal to the service fee (the "Service Fee") payable to registered dealers. The Manager will pay to registered dealers an annual Service Fee equal to 0.40% of the net asset value per Unit for Units held by clients of the sales representatives of the registered dealers calculated and payable semi-annually in arrears.

In the event that the Trust does not distribute at least \$0.1510 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 \$0.1510 per Unit, subject to a minimum aggregate monthly management fee. 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 \$0.1510 per Unit. Accrued fees will not be paid to 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 unless an amount equal to 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 per Unit multiplied by the number of Units outstanding at such time, 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 June 26, 2002, to the following transactions:

- (a) The issue of 800,000 Units for total gross proceeds of \$20,000,000.
- (b) The payment of estimated costs relating to the Offering of \$1,800,000, which amount is comprised of the fee payable to the Agents in the Offering of \$1,050,000 and issue costs of \$750,000.
- (c) The completion of the purchase of an investment portfolio at a cost of \$18,200,000.

CERTIFICATE OF THE MANAGER

Dated: June 26, 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 Skylon Global Capital Yield 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: June 26, 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: June 26, 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 8 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) FREDERICK CHANN

BMO NESBITT BURNS INC.

NATIONAL BANK FINANCIAL INC.

SCOTIA CAPITAL INC.

By: (Signed) DAVID R. THOMAS

By: (Signed) IAN MCPHERSON

By: (Signed) BRIAN D. MCCHESEY

HSBC SECURITIES (CANADA) INC.

RAYMOND JAMES LTD.

By: (Signed) DEBORAH J. SIMKINS

By: (Signed) JAMES R. COULTER

CANACCORD CAPITAL
CORPORATION

DESJARDINS
SECURITIES INC.

DUNDEE SECURITIES
CORPORATION

YORKTON SECURITIES INC.

By: (Signed)
PETER MARRONE

By: (Signed)
ERIC DESORMEAUX

By: (Signed)
DAVID P. STYLES

By: (Signed)
MARILIA COSTA



P I M C O
INVESTMENT SUB-ADVISOR