

**BROOKFIELD SOUNDVEST SPLIT TRUST**  
**(formerly Brascan SoundVest Rising Distribution Split Trust)**

**ANNUAL INFORMATION FORM**

**DATED MARCH 30, 2011**

**Forward-Looking Statements:** This Annual Information Form contains “forward-looking statements” and information. The words “believe,” “typically,” “generally,” “expect,” “will,” “should,” “seek,” “likely,” “could,” “may,” and other expressions which are predictions of or indicate future events, trends or prospects and which do not relate to historical matters identify forward-looking statements. Although the Manager and Investment Advisor believe that the anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Trust to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements and information. Factors that could cause actual results to differ materially from those set forward in the forward-looking statements or information include: general economic conditions; availability of financing; changes in legislation or practices governing the income trust sector; and other risks and factors described from time to time in the documents filed by the Trust, the Manager and the Investment Advisor with the securities regulators in Canada. Neither the Trust, the Manager nor the Investment Advisor undertake any obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by law.

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## THE TRUST

Brookfield Soundvest Split Trust (formerly Brascan SoundVest Rising Distribution Split Trust) (the “Trust”) is an investment trust established under the laws of the Province of Ontario pursuant to a declaration dated as of February 25, 2005. The declaration of trust was amended and restated as of March 28, 2008 to replace the advisory board established by the manager of the Trust with an independent review committee established by the manager of the Trust. The declaration of trust was further amended and restated as of April 30, 2010 in consequence of a restructuring approved at an extraordinary meeting of unitholders held on April 20, 2010 (the “Restructuring”) to:

- (a) amend the investment strategy and investment restrictions of the Trust to broaden the universe of eligible investments to include common and preferred shares, income trusts, income securities, including bonds and debentures, real estate investment trusts, Canadian mortgage-backed securities, and other equity securities and remove some of the existing investment restrictions;
- (b) remove the fixed termination date for the Trust;
- (c) permit the Manager, in its sole discretion to wind-up the Trust should the net asset value of the Trust fall below \$15 million, subject to compliance with the trust indenture between the Trust and CIBC Mellon Trust Company dated March 16, 2005 governing the 6% preferred securities (the “**Trust Indenture**”); and
- (d) adopt certain amendments to the amended and restated declaration of trust dated March 28, 2008 (the “**Declaration of Trust**”) of the Trust to improve the operational flexibility and efficiency of the Trust and to make amendments of a technical or housekeeping nature.

Concurrent with the Restructuring, the name of the Trust was changed to Brookfield Soundvest Split Trust and Brookfield Soundvest Capital Management Ltd., the Trust’s investment advisor, replaced Brookfield Investment Management (Canada) Inc. as the Trust’s manager. (“Brookfield Soundvest” or “Manager” or “Manager and Investment Advisor”). Computershare Trust Company of Canada is the trustee of the Trust (the “Trustee”). The Trustee and the Manager (or any replacement thereof) will at all times be residents of Canada for the purposes of the *Income Tax Act* (Canada) (the “Tax Act”). The head office of the Trust is located at 181 Bay Street, Suite 300, Toronto, Ontario, M5J 2T3.

The beneficial interest in the net assets and net income of the Trust is divided into trust units of equal value (the “Capital Units”). The Trust also has preferred securities outstanding (the “Preferred Securities”) pursuant to a trust indenture (the “Trust Indenture”) entered into on March 16, 2005 between the Trust and CIBC Mellon Trust Company as indenture trustee (the “Indenture Trustee”). On March 16, 2005, the Trust completed its initial public offering of 7.3 million Capital Units and 7.3 million Preferred Securities at a price of \$15.00 per Capital Unit and \$10.00 per Preferred Security, for gross proceeds of \$180 million. The Capital Units and Preferred Securities commenced trading on the Toronto Stock Exchange (“TSX”) on March 16, 2005 under the symbols “BSD.UN” and “BSD.PR.A”, respectively. Because the primary market for the Capital Units and Preferred Securities is the TSX, the Trust has not considered it necessary to develop policies regarding short-term trading of the Capital Units and Preferred Securities.

### Capital Unitholders Meeting

A more detailed explanation of the Restructuring is set out in the Information Circular dated March 18, 2010, which was sent to all Unitholders and is available at [www.sedar.com](http://www.sedar.com).

The Restructuring was referred to and reviewed by the Independent Review Committee of the Trust. After due consideration, the Independent Review Committee provided its positive recommendation that the Restructuring would achieve a fair and reasonable result for the Trust.

### Other Recent Developments

On October 23, 2008, and in accordance with the Declaration of Trust, the Trust announced that it temporarily suspended the annual redemption rights for both the Capital Units and Preferred Securities. This suspension occurred pursuant to section 6.20(1)(c) of the Declaration of Trust, which provides that the Trust may elect to suspend the annual redemption rights if, after giving effect to the redemptions, the Combined Value (as defined under “Valuation — NAV per Capital Unit”) would be less than 1.4 times the Repayment Price (as defined under “Valuation — NAV per Capital Unit”). By January 2011 it was anticipated that redemptions could be processed without violating the 1.4 times coverage ratio and the suspension was lifted on January 5, 2011 with a Redemption Date of February 14, 2011. Unitholders tendered 1,310,344 Combined Securities (being one Capital Unit and a \$10.00 principal amount of Preferred Securities) and 260,174 Capital Units were tendered alone. In accordance with the Declaration of Trust, 260,174 Preferred Securities were purchased in the market at a total price of \$2,676,831 to match with the Capital Units tendered alone and total redemption proceeds of \$20,445,419 were paid on March 4, 2011 to settle the Capital Units and Combined Securities surrendered through the redemption process.

On October 23, 2008, the Trust also announced that it was temporarily suspending the distribution on its Capital Units, in accordance with its Declaration of Trust, as the Trust’s net asset value was below the required 1.4 times coverage ratio. On February 17, 2011, when it was anticipated that a distribution could be paid without violating the 1.4 times coverage ratio, a quarterly distribution of \$0.01 per Capital Unit was declared, reflecting a current annualized rate of \$0.04 per unit. (See “Risk Factors — No Assurances of Achieving Objectives”). The quarterly distributions payable on the Preferred Securities have not been affected to date. The Trust will continue to monitor this ratio to determine when it will be able to resume distributions on its Capital Units in the future.

On October 12, 2010, the Trust announced a normal course issuer bid under which it will have the right to purchase for cancellation up to 520,675 of its Capital Units and 520,675 of its Preferred Securities representing approximately 10% of the public float of the capital units and 520,675 of its preferred securities, representing approximately 9.19% of the public float of the preferred securities issued and outstanding as at October 12, 2010. These purchases were eligible to commence as of October 14, 2010 and must end by October 13, 2011. Purchases were made in the open market, at the market price, through the facilities of the Toronto Stock Exchange, and in 2010, 61,400 capital units and 61,400 of preferred securities were repurchased and cancelled under the NCIB. An additional 200 capital units were purchased under the normal course issuer bid and were matched with preferred securities and cancelled during the period January 1, 2011 through January 11, 2011.

## **Status of the Trust**

The Trust is not considered to be a mutual fund under the securities legislation of the provinces of Canada. Consequently, the Trust is not subject to the various policies and regulations that apply to mutual funds, including National Instrument 81-102 of the Canadian Securities Administrators (“NI 81-102”).

The Trust is not a trust company and does not carry on business as a trust company and, accordingly, the Trust is not registered under the trust company legislation of any jurisdiction. Capital Units and Preferred Securities 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.

## **INVESTMENTS OF THE TRUST**

### **Investment Objectives**

The Trust’s investment objectives are:

- (i) with respect to the Preferred Securities, (i) to provide Securityholders with fixed quarterly interest payments in the amount of \$0.15 per Preferred Security (\$0.60 per annum to yield 6% per annum on the original subscription price of \$10.00); and (ii) to repay the original subscription price at maturity;
- (ii) to provide Unitholders with regular distributions; and

(iii) to maximize long-term total return with the Trust's portfolio.

The Trust uses distributions from the Portfolio as follows: (i) to pay expenses of the Trust, including, without limitation, interest on the Loan Facility (as hereinafter defined); (ii) to pay interest on the Preferred Securities; and (iii) to distribute any remaining amounts to Unitholders.

The Trust has been created using a dual security structure which offers investors flexibility to select the type of security and the tax character for distributions that is best suited to their investment needs. A higher proportion of the amounts distributed to Unitholders are returns of capital, when compared to the distributions that they would otherwise receive through a direct investment in securities making up the Portfolio. See "Description of the Units".

## **Investment Strategy**

In order to achieve the Trust's investment objectives, the Trust shall invest its net assets in a diversified portfolio of securities (the "**Portfolio**") consisting primarily of common and preferred shares of Canadian issuers, income securities, including bonds and debentures, income trusts, real estate investment trusts ("**REITs**") Canadian mortgage-backed securities and cash and cash equivalents. The Trust may also invest up to 20% of the value of the Portfolio in any other security, in the discretion of the Investment Advisor, that is not otherwise prohibited by its Declaration of Trust.

The Investment Advisor uses a conservative, long-term "growing-concern" approach to the management of investments and also applies a rigorous buy/sell discipline to all investments. The Investment Advisor seeks to identify and invest in successful businesses which are run by strong and experienced management teams and which are available at attractive prices. In managing the Portfolio, the Investment Advisor employs risk management and risk reduction techniques to preserve and protect capital.

Securities selection for the Portfolio is based primarily on an assessment of the attractiveness of individual investments. This involves an in-depth review of the business carried on by each, its prospects, its management and its value. The Investment Advisor also assesses various macro factors to ensure diversification amongst the various sectors of investments and to enable the Trust to benefit from trends and other factors affecting a particular sector. From a macro perspective, weightings in the power generation and pipeline sector (which tend to be lower yielding) are influenced by the Investment Advisor's assessment of the level and direction of interest rates; weightings in oil and gas are heavily influenced by the Investment Advisor's assessment of the level and direction of oil and gas prices; and weightings in real estate investment trusts ("**REITs**") are affected by the overall level of vacancies, rental rates and absorption rates in the various real estate classes and locations.

The Investment Advisor's examination of individual issuers incorporates an intensive and ongoing analysis of the fundamentals of each issuer. As part of the process, the Investment Advisor generally: (a) conducts interviews with the business' management, competitors and investment analysts; (b) assesses the competitive position of the issuer's business, factors that affect the issuer's profitability, and the ability of the issuer's management to effectively allocate capital; and (c) analyzes the capability of the issuer to consistently earn a rate of return on its invested capital which is meaningfully higher than its cost of capital.

The criteria used to select specific income fund for the Portfolio revolves around three key areas of analysis: management, the micro-economics of the business and valuation.

### Management

The Investment Advisor assesses the integrity, competence and track record of management of each issuer by examining a number of factors including the following:

- cost control discipline;
- prudent assumptions for both maintenance and growth capital expenditures;
- conservative approach to the use of leverage;
- margin of safety in the issuer's pay-out ratio;
- customer and investor focus;
- selection of conservative accounting practices; and
- sound corporate governance.

### Micro-economics

The Investment Advisor seeks the following factors in its selection of investments:

- sustainable competitive position in its chosen market place;
- ability to consistently generate a steady or growing level of free cash flow on a per unit or security basis through various economic cycles;
- ability to distribute substantially all of its free cash flow to securityholders without impairing the underlying prospects of the business; and
- reasonable returns on invested capital with conservative leverage.

### Valuation

The Investment Advisor seeks to invest in issuers that are priced below their intrinsic value. However, if the intrinsic value of an issuer is growing at a meaningful rate, the Investment Advisor may invest in such an issuer, at such value, particularly when cash distributions are at attractive yield levels. The Investment Advisor will determine intrinsic values using the following methods:

- detailed discounted cash flow analysis;
- private market valuation analysis on standard metrics for the respective industry; and
- comparative business analysis.

To assess the relative attractiveness of a particular security, its intrinsic value is compared with both its market price and an expected trading range as determined by the Investment Advisor.

### Investment Criteria

The Trust is subject to certain investment criteria that specify the equity securities and other securities the Trust may acquire for the Portfolio. The Trust's investment criteria may not be changed without the approval of the Unitholders by a two-thirds majority vote of those Unitholders who attend and vote at a meeting called for such purpose. The Trust's investment criteria for the Portfolio provide that the Trust may purchase:

- (a) common and preferred shares of Canadian issuers;
- (b) income securities;
- (c) bonds and debentures;
- (d) income trusts;

- (e) REITs;
- (f) Canadian mortgage-backed securities; or
- (g) cash or cash equivalents, including indebtedness that has a remaining term to maturity of less than one year and that is issued or fully guaranteed by the government of Canada or of a jurisdiction thereof, the government of the United States and of certain other foreign countries having an approved credit rating for the purposes of NI 81-102 (as if the Trust were subject to NI 81-102) and certain Canadian or foreign financial institutions rated as short-term debt and having an approved credit rating for the purposes of NI 81-102 (as if the Trust were subject to NI 81-102).

The Trust may also invest up to 20% of the value of the Portfolio in any other security, in the discretion of the Investment Advisor, that is not otherwise prohibited in its Declaration of Trust.

On June 22, 2007, tax rules that significantly change the income tax treatment of most publicly traded trusts and partnerships (other than certain REITs) and the distributions and allocations, as the case may be, from these entities to their investors were enacted (the “SIFT Rules”). Proposed amendments to the SIFT Rules were announced by the Minister of Finance (Canada) on December 20, 2007, draft legislative proposals containing proposed amendments to the SIFT Rules were released on July 14, 2008, a Notice of Ways and Means Motion containing proposed amendments to the SIFT Rules was tabled in the House of Commons on November 28, 2008 and on February 2, 2009. Legislation to implement the proposed amendments contained in the February 2, 2009 Notice of Ways and Means Motion was contained in Bill C-10 which received royal assent on March 12, 2009. The SIFT Rules impose a tax on certain income (other than taxable dividends) earned by a trust or partnership to which the SIFT Rules apply (a “SIFT”) at a rate similar to a corporation and treat distributions or allocations of such income to investors as a dividend from a taxable Canadian corporation. The SIFT Rules do not change the tax treatment of distributions that are paid as a return of capital by SIFT trusts. The SIFT Rules are effective for a SIFT’s taxation year ending after 2006, except that the application of the SIFT Rules is generally delayed until the SIFT’s taxation year ending after 2010 if the SIFT would have been a SIFT on October 31, 2006, had the SIFT Rules been enacted on that date. However, the deferral will be lost and the SIFT Rules will apply immediately in any taxation year ending after 2006 if the SIFT exceeds the normal growth limitations set out in the guidelines concerning normal growth released by the Department of Finance (Canada) on December 15, 2006, as subsequently revised and as may be further amended from time to time (the “Normal Growth Guidelines”), unless the excess arose from a prescribed transaction or if a trust or partnership that would not have been a SIFT on October 31, 2006 subsequently becomes a SIFT at any time thereafter. The Normal Growth Guidelines establish objective tests with respect to how much a SIFT is permitted to grow in the interim period from November 1, 2006 to the end of 2010 without becoming immediately subject to the SIFT Rules. The Trust was established to provide investors with exposure to the Portfolio that includes securities of income trusts (and may include securities of partnerships) to which the SIFT Rules may apply. Since the announcement of the SIFT Rules, the Manager has been monitoring their impact on the Trust and reviewing various strategic alternatives to address them.

The Trust purchases securities of Canadian issuers but may from time to time invest in foreign securities which will primarily be securities issued by United States issuers.

### **Investment Restrictions**

The Trust does not engage in any undertaking other than the investment of the Trust’s assets in accordance with the Trust’s investment objectives, strategy and criteria specified herein. The Trust is subject to the following investment restrictions pursuant to which the Trust will not:

- (a) invest more than 10% of the net assets of the Trust in the securities of any single issuer, other than securities issued by the Government of Canada or a jurisdiction thereof;
- (b) purchase or sell derivative instruments except as described under “Investments of the Trust — Use of Derivative Investments”;
- (c) borrow money, other than under the Loan Facility;



- (d) make loans, provided that the Trust may engage in securities lending and may purchase and hold debt obligations (including bonds, debt securities or other obligations and certificates of deposit, bankers' acceptances and fixed term deposits) in accordance with the Trust's investment strategy, objectives and criteria specified herein;
- (e) purchase real estate or real estate mortgage loans, other than units of REITs;
- (f) purchase or sell commodities or commodities contracts;
- (g) make short sales of securities or maintain short positions;
- (h) own more than 10% of any class of securities of any one issuer or purchase the securities of an issuer for the purpose of exercising control over management of any issuer;
- (i) guarantee the securities or obligations of any person other than the Manager, and then only in respect of the activities of the Trust;
- (j) act as underwriter, except to the extent that the Trust may be deemed to be an underwriter in connection with the sale of Portfolio securities;
- (k) make or hold any investment that would result in the Trust failing to qualify as a "unit trust" within the meaning of paragraph 108(2)(b) of the Tax Act. Among other requirements, in order for the Trust to so qualify:
  - (i) at all times at least 80% of the property of the Trust must consist of a combination of: shares; property that, under the terms or conditions of which or under an agreement, is convertible into, exchangeable for, or confers a right to acquire, shares; cash; bonds, debentures, mortgages, hypothecary claims, notes and other similar obligations; marketable securities; real property situated in Canada and interests in real property situated in Canada; or rights to and interests in any rental or royalty computed by reference to the amount or value of production from a natural accumulation of petroleum or natural gas in Canada, from an oil or gas well in Canada or from a mineral resource in Canada;
  - (ii) not less than 95% of the Trust's income for each year must be derived from, or from the disposition of, investments described in (i) above; and
  - (iii) at no time may more than 10% of the Trust's property consist of bonds, securities or shares in the capital stock of any one corporation or debtor other than Her Majesty in right of Canada or a province or a Canadian municipality;
- (l) make or hold any investment that would result in the Trust failing to qualify as a "mutual fund trust" within the meaning of the Tax Act;
- (m) invest in or hold the securities of any non-resident corporation or trust or other non-resident entity if the Trust would be required to include any significant amounts in income in respect of such securities pursuant to proposed sections 94.1 or 94.3 of the Tax Act, or to mark to market its investment in such securities in accordance with proposed section 94.2 of the Tax Act, as set forth in the proposed amendments to the Tax Act dealing with foreign investment entities announced by the Minister of Finance (Canada) on November 9, 2006 contained in Bill C-10 (or amendments to such proposals, provisions as enacted into law or successor provisions thereto);
- (n) invest in securities of a non-resident trust (or in interests in any partnership that holds interests in such a trust) other than an "exempt foreign trust" as such term is defined in the proposed amendments to the Tax Act dealing with non-resident trusts announced by the Minister of Finance

(Canada) on November 9, 2006 (or amendments to such proposals, provisions as enacted into law or successor provisions thereto);

- (o) make or hold any investment that is a “tax shelter investment” for purposes of section 143.2 of the Tax Act;
- (p) with the exception of securities of the Trust’s own issue, purchase securities from, sell securities to, or otherwise contract for the acquisition or disposition of securities with the Manager or the Investment Advisor or any of their respective affiliates, with any officer, director or shareholder of any of them, with any person, trust, firm or corporation managed by the Manager or the Investment Advisor or any of their respective affiliates or with any firm or corporation in which any officer, director or shareholder of the Manager or the Investment Advisor may have a material interest (which, for these purposes, includes beneficial ownership of more than 10% of the voting securities of such entity) unless, with respect to any such purchase or sale of securities, any such transaction is effected through normal market facilities, and the purchase price approximates the prevailing market price; or
- (q) Make or hold any investment that is “non-portfolio property” for purposes of section 122.1 of the Tax Act.

### **Use of Derivative Instruments**

The Trust may invest in or use derivative instruments for hedging purposes consistent with its investment objectives and investment strategy and subject to its investment restrictions, as permitted by Canadian securities regulators from time to time. For example, the Trust may use derivatives, including interest rate and foreign exchange hedges with the intention of offsetting or reducing risks associated with an investment or group of investments. These risks include currency value fluctuations, commodity price fluctuations, stock market risks and interest rate changes.

### **Securities Lending**

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

## **MANAGEMENT OF THE TRUST**

### **The Manager**

Pursuant to an amended and restated management agreement (the “Management Agreement”) dated as of April 30, 2010, the Manager has been appointed to act as the manager of the Trust and has been given the authority to manage the activities and day to day operations of the Trust, including providing and arranging for the provision of marketing and administrative services required by the Trust. Under the Management Agreement, the Manager may delegate certain of its duties to third parties. The Manager’s duties include: maintaining accounting records for the Trust; authorizing the payment of operating expenses incurred on behalf of the Trust; preparing financial statements, income tax forms and financial and accounting information as required by the Trust; calculating the net asset value (“NAV”) of the Trust; ensuring that Unitholders are provided with financial statements and other reports as are required by applicable law from time to time; monitoring the Trust’s compliance with regulatory requirements and any applicable stock exchange listing requirements; preparing the Trust’s reports to Unitholders, the Canadian securities regulatory authorities and any stock exchange on which the Preferred Securities and Capital Units are listed; and negotiating contractual agreements with third party providers of services, including auditors and printers.

The Manager, acting in such capacity, does not participate in the day to day management of the Portfolio. The Manager is registered as a Portfolio Manager and Investment Fund Manager under the *Securities Act* (Ontario).

The Manager, 50% owned by Brookfield Asset Management Inc. (“Brookfield”) and 50% owned by entities controlled by Kevin Charlebois, has been the Trust’s investment advisor since its inception. The Manager is located at 100 Sparks Street, Suite 900, Ottawa, Ontario, K1P 5B7.

### **The Management Agreement**

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

Unless the Manager resigns or is removed as described below, the Manager will continue as manager until the termination of the Trust. The Manager may resign if the Trust is in breach or default of the provisions of the Management Agreement and, if capable of being cured, any such breach or default has not been cured within 30 days’ notice of such breach or default to the 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 Tax Act. The Manager may not be removed other than by an Extraordinary Resolution (as hereinafter defined) of the Unitholders. In the event that the Manager is in material breach or default of the provisions of the Management Agreement and, if capable of being cured, any such breach or default has not been cured within 30 days’ notice of such breach or default to the Manager, the Trustee shall give notice thereof to Unitholders and Unitholders may direct the Trustee to remove the Manager and appoint a successor manager.

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

The management services provided by the Manager under the Management Agreement are not exclusive to the Trust and nothing in the Management Agreement prevents the Manager from providing similar management services to other investment funds and other clients (whether or not their investment objectives and policies are similar to those of the Trust) or from engaging in other activities.

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

The name and municipality of residence of each of the directors and officers of the Manager and their principal occupations are as follows:

<b>Name and Municipality</b>	<b>Position with the Manager</b>	<b>Principal Occupation</b>
George Myhal Toronto, Ontario	Director, Chairman	Senior Managing Partner, Brookfield
Rajeev Viswanathan Toronto, Ontario	Director	Assistant Vice-President, Brookfield
Kevin Charlebois	Director, President, Chief	same

Ottawa, Ontario	Executive Officer, Chief Investment Officer and Secretary	
Audrey Charlebois Ottawa, Ontario	Director	same
Garry Skinner Ottawa, Ontario	Chief Financial Officer and Controller	same

*George Myhal, Director, Chairman*

Mr. Myhal is a Senior Managing Partner and Chief Operating Officer of Brookfield and has held a number of senior positions within Brookfield since joining the company in 1981. He has been instrumental in the development and growth of Brookfield's asset management business. Mr. Myhal was previously the Treasurer of Brookfield and has extensive experience in the capital markets, particularly with respect to corporate debt and high yield debt. Mr. Myhal is a Chartered Accountant and an Industrial Engineering graduate of the University of Toronto.

*Rajeev Viswanathan, Director*

Mr. Viswanathan has been Assistant Vice-President with Brookfield since 2007 and is responsible for the financial and operational aspects of various Brookfield funds. Prior to joining Brookfield, Mr. Viswanathan held the position of Finance and Performance Management Manager at Accenture LLP from March 2006. Prior to that time, Mr. Viswanathan acted as a consultant in the Energy Services Industry from July 2005, and prior thereto from December 2003 held various positions in Finance and Control with Direct Energy. Prior thereto from November 1999, Mr. Viswanathan was with Ernst & Young LLP where he last held the position of Business Advisory Services Manager. Mr. Viswanathan earned a BMath (Honours) and a Masters of Accounting from the University of Waterloo, Ontario. Mr. Viswanathan is a Chartered Accountant.

*Kevin Charlebois, Director, President, Chief Executive Officer, Chief Investment Officer and Secretary*

Mr. Charlebois is the President and Chief Investment Officer of Brookfield Soundvest and is primarily responsible for providing investment advisory and portfolio management services for the Trust. Mr. Charlebois earned a Bachelor of Commerce degree from Carleton University (1974) and joined the company in 1975. He has managed investments in Canadian and U.S. stocks, bonds, money market, mortgages, real estate, venture capital, private placements and high yielding equities since that time. His experience in high yield equities dates back to the 1970s with direct, private investments in real estate and mortgages, and in oil and gas properties on behalf of pension fund clients. He has been involved in the public market for income trusts since its inception in the mid-1980s. In addition, Mr. Charlebois has created and taught finance courses at Carleton University, is past Chairman of the Finance Committee of the School of Business at Algonquin College, is a past director of the Ottawa-Carleton Board of Trade (and past Chairman of the Board's Finance and Taxation Committee), a past Chairman of the Young Professional Associates, a past director of the Foundation of the Ottawa General Hospital and a former President of the Ottawa Chapter of Financial Analysts. Mr. Charlebois is a Chartered Financial Analyst charterholder.

*Audrey Charlebois, Director*

Mrs. Charlebois was the Manager of Finance and Administration for Brookfield Soundvest's predecessor companies from 1987 to 2005. She was responsible for all administrative and accounting functions of the company and managed services provided by external contractors. Mrs. Charlebois is a director and officer of a shareholder of Brookfield Soundvest.

*Garry Skinner, Chief Financial Officer*

Mr. Skinner joined Brookfield Soundvest in December 2005 and is responsible for the financial operations and reporting of the company and the funds it manages. Mr. Skinner is a Chartered Accountant (1975) with post public

accounting experience ranging from financial reporting to operations management. He has served as Controller, Vice President Finance, Vice President Business Development and Vice President Operations with public and private companies in the equipment distribution, shipbuilding and environmental management sectors.

### **The Independent Review Committee**

The Manager has established an independent review committee (the “Independent Review Committee”) as required by National Instrument 81-107 *Independent Review Committee for Investment Funds* (“NI 81-017”), for all publicly offered investment funds managed by the Manager. The Independent Review Committee is responsible for reviewing, and if desirable providing input to the Manager on, the Manager’s written policies and procedures which deal with conflicts of interest involving the Manager, as well as, any other matter that the Manager requests the Independent Review Committee to review.

The Independent Review Committee was formed effective January 1, 2010 when the Manager became the manager of Brookfield Soundvest Equity Fund (TSX: BSE.UN). Brookfield Soundvest Equity Fund was created by the merger of Brascan SoundVest Diversified Income Fund (TSX: BSI.UN) and Brascan SoundVest Total Return Fund (TSX: BST.UN) into Brascan SoundVest Focused Business Trust (TSX: BSF.UN), the continuing fund. In conjunction with the merger, the continuing fund was renamed Brookfield Soundvest Equity Fund.

At a special meeting of unitholders held on April 20, 2010, changes to the declaration of trust of Brascan SoundVest Rising Distribution Split Trust were approved that included changing the manager of the fund to the Manager and renaming the fund Brookfield Soundvest Split Trust (the “Split Trust”). In conjunction with the change in the manager the Split Trust was added to the mandate of the Independent Review Committee.

The three original members of the Independent Review Committee, John P. Barratt, James L.R. Kelly and James C. Bacon, were also members of the independent review committee (the “Predecessor IRC”) that was formed for the predecessors to the Brookfield Soundvest Equity Fund and the Split Trust. Their membership on the Predecessor IRC was continuous from November 1, 2007 up to the change in manager for the Split Trust. Mr. Bacon died suddenly in July 2010 and Mr. Frank N.C. Lochan was appointed effective January 1, 2011 for a term of one year to fill the vacancy created by Mr. Bacon’s death.

Each member is independent as that term is defined under NI 81-107. The members of the Independent Review Committee are required to act honestly and in good faith and in the best interests of the Trust and in connection with that duty exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

At least annually the Independent Review Committee will prepare a report of its activities for unitholders of the Trust which will be available on the Brookfield Soundvest internet web site at [brookfieldsoundvet.com](http://brookfieldsoundvet.com), at [www.sedar.com](http://www.sedar.com) or at the unitholder’s request at no cost, by contacting the Manager at [inquiries@brookfieldsoundvest.com](mailto:inquiries@brookfieldsoundvest.com).

The Manager has developed a detailed policies and procedures manual to help ensure compliance with applicable laws and policies in respect of the oversight, operation, marketing, and administration of the Trust. The Manager’s policies and procedures manual includes provisions regarding personal trading standards of conduct, conflict of interest guidelines, and a code of ethics.

As part of its mandate, the Independent Review Committee has reviewed and provided standing instructions to the Manager that it may rely on its policies on Allocation of Expenses Among the Funds, Net Valuation Calculation Errors, Use of Brokerage Services Provided to the Fund, Trade Allocation, Best Execution, Voting Proxies or Taking Other Corporate Action on Securities held by the Funds, Personal Trading, and Soft Dollars.

All fees and expenses of the Independent Review Committee incurred in connection with its duties to the Trust are paid by the Trust. The Independent Review Committee has the authority to retain independent counsel or other advisors if the Independent Review Committee determines it is useful or necessary to do so in order to carry

out its duties and to set and pay, at the expense of the Trust, reasonable compensation and proper expenses for the independent advisors.

Members of the Independent Review Committee are each entitled to compensation of \$25,000 per annum plus reimbursement of expenses, being the aggregate total for their duties on behalf of the Manager's multiple independent review committees. For the fiscal year ended December 31, 2010, a total of \$35,927 was paid by the Trust to Independent Review Committee members; reimbursement of expenses made to Independent Review Committee members was nominal.

The members of the Independent Review Committee will be indemnified by the Trust except in cases of breach of the members' standard of care and subject to the limitations imposed by NI 81-107. The members of the Independent Review Committee may serve in a similar capacity in respect of other entities managed by the Manager.

*John P. Barratt*

Mr. Barratt is currently a corporate director. Mr. Barratt served as Chief Operating Officer (2005 -2006) and then as the Board Liaison Officer (2006 – 2009) of The Caldwell Partners International. The Caldwell Partners International is a Canadian based human capital services company. From 2002 to 2007, Mr. Barratt acted as the court-appointed Responsible Person and Liquidation Manager of Beyond.com Corporation, Debtor-in-Possession, a US Chapter 11 Bankruptcy case, in which capacity Mr. Barratt reported to the court and the U.S. Trustee's Office. From September 2000 until the date of its Chapter 11 bankruptcy filing (2002), Mr. Barratt acted in the capacity of Chief Operating Officer of Beyond.com Corporation, an electronic fulfillment provider. Between 1996 and 2000, Mr. Barratt was partner in residence with the Quorum Group of Companies, an international investment partnership specializing in providing debt and/or equity capital coupled with strategic direction to emerging technology companies. Between 1988 and 1995, Mr. Barratt held a number of positions with Coscan Development Corporation, a real estate development company, the last position of which was Executive Vice-President and Chief Operating Officer. Mr. Barratt is currently Chairman of the Board of Generex Biotechnology Corporation, a member of the Board of Directors of Brookfield Investments Corporation, BAM Split Corp. and Crystal Fountains Holdings Inc. In addition, Mr. Barratt is a Member of the Board and Chairman of the Risk Policy Committee for the Bank of China (Canada).

*James L. R. Kelly*

Mr. Kelly is President of Earth Power Tractors and Equipment Inc., a farm equipment dealer, a position he has held since 1998. Between 1994 and 1998, Mr. Kelly was self-employed as a management consultant providing management and financial services, and prior to that time from 1990 was Senior Vice President and Chief Financial Officer of Triathlon Leasing Inc. From 1972 to 1990, Mr. Kelly held various senior finance and administrative positions with Xerox Canada Inc. Mr. Kelly is a Chartered Accountant.

*Frank N. C. Lochan*

Mr. Lochan is currently a corporate director. Mr. Lochan held various executive positions with the Brookfield group of companies from 1974 until his retirement in 2005, when he was Executive Vice-President, Taxation. Mr. Lochan is currently Chairman or Director of a number of Canadian and international companies operating in the investment management and insurance sectors, and serves on various committees of those companies. Mr. Lochan also has significant community involvement including his current role as Chairman of the Oakville Hospital Foundation, and Board member of the Centre for Addiction and Mental Health Foundation. He is also a member of the Finance and Investment Committees at the Oakville Community Foundation. Mr. Lochan is also a member of the Advisory Board for the Master of Taxation programme at the University of Waterloo, and has been a periodic guest lecturer on taxation issues to Master of Technology Students at the University of Waterloo. Mr. Lochan is a Fellow of the Institute of Chartered Accountants of England and Wales, and of the Association of Certified Chartered Accountants. He is also a member of the Institute of Chartered Accountants of Ontario and of the Canadian Institute of Chartered Business Valuators. He has a Master's degree in Finance from the London School of Economics and a Master's degree in Taxation from the University of Waterloo.

## **The Investment Advisor**

Pursuant to an investment advisory agreement (the “Investment Advisory Agreement”) dated as of February 25, 2005, the Investment Advisor was retained to provide investment advisory and portfolio management services to the Trust. The Investment Advisory Agreement was amended and restated as of April 30, 2010 to reflect the appointment of the Manager as manager of the Trust and the other matters contemplated under the Restructuring. The Investment Advisor, established in 1970, is registered as an investment manager with securities commissions in both Canada and the United States and is located at 100 Sparks Street, Ottawa, Ontario, K1P 5B7.

The Investment Advisor is 50% owned by Brookfield and 50% owned by entities controlled by Kevin Charlebois. On April 3, 2008, the Investment Advisor’s name was changed from SoundVest Capital Management Ltd. to Brookfield Soundvest Capital Management Ltd. Prior to March 2003, the Investment Advisor’s name was Queensway Investment Counsel Limited. From 1970 to 1996, the Investment Advisor’s name was JRF Financial Consultants Ltd.

The individual who is primarily responsible for managing the investments within the Trust’s Portfolio is Kevin Charlebois, who is supported by a team of experienced professionals.

The employees of the Investment Advisor who are involved in the provision of investment management services by the Investment Advisor to the Manager under the Investment Advisory Agreement are as follows:

<u>Name and Municipality</u>	<u>Principal Occupation and Position with the Investment Advisor</u>
Kevin Charlebois, CFA Ottawa, Ontario	President and Chief Investment Officer
Ryan Cody, CFA Ottawa, Ontario	Portfolio Manager and Equity Analyst
Tyson Charlebois Ottawa, Ontario	Equity Analyst

### ***Kevin Charlebois***

Mr. Charlebois is the President, Chief Executive Officer and Chief Investment Officer of the Investment Advisor and is primarily responsible for providing investment advisory and portfolio management services for the Trust. Mr. Charlebois earned a Bachelor of Commerce degree from Carleton University (1974) and joined the company in 1975. He has managed investments in Canadian and U.S. stocks, bonds, money market, mortgages, real estate, venture capital, private placements and high yielding equities since that time. His experience in high yield equities dates back to the 1970s with direct, private investments in real estate and mortgages, and in oil and gas properties on behalf of pension fund clients. He has been involved in the public market for income funds since its inception in the mid-1980s. In addition, Mr. Charlebois has created and taught finance courses at Carleton University, is past Chairman of the Finance Committee of the School of Business at Algonquin College, is a past director of the Ottawa-Carleton Board of Trade (and past Chairman of the Board’s Finance and Taxation Committee), a past Chairman of the Young Professional Associates, a past director of the Foundation of the Ottawa General Hospital and a former President of the Ottawa Chapter of Financial Analysts. Mr. Charlebois is a Chartered Financial Analyst charterholder.

### ***Ryan Cody***

Ryan is a portfolio manager with the Investment Advisor. In addition to his portfolio management duties, Ryan is responsible for performing detailed fundamental analysis on selected industries providing support to the rest of the management team. Ryan joined the firm in 2000 as an account manager and was subsequently promoted to the position of research analyst in 2006 and then portfolio manager in 2010. Ryan earned both a Bachelor of Social Science degree with a major in Economics from the University of Ottawa and a 3-year Business Administration diploma from Algonquin College. Ryan has also completed the Canadian Securities Course and the Options and

Derivatives Fundamentals Course offered through the Canadian Securities Institute. Ryan is a Chartered Financial Analyst charterholder.

### ***Tyson Charlebois***

Tyson joined the Investment Advisor in 2009 and is responsible for providing fundamental equity analysis in support of the equity investment team. Tyson earned a Bachelor of Business Administration degree from Wilfrid Laurier University in 2005. In addition, he has completed the Canadian Securities Course, Wealth Management Essentials Course, Options Licensing Course and Derivatives Fundamentals Course offered through the Canadian Securities Institute. Tyson comes to the firm from TD Waterhouse with five years of experience in the financial services industry and is currently enrolled in Level III of the Chartered Financial Analyst program.

### **The Investment Advisory Agreement**

In accordance with the Investment Advisory Agreement, the Investment Advisor is required to manage the Portfolio in a manner consistent with the investment objectives, strategy, criteria and restrictions of the Trust pursuant to the Investment Advisory Agreement. The services provided by the Investment Advisor pursuant to the Investment Advisory Agreement include providing investment advice in respect of the Portfolio in accordance with the investment objectives, strategy and criteria of the Trust, and subject to the investment restrictions. In the purchase and sale of securities for the Trust, the Investment Advisor seeks to obtain overall services and prompt execution of orders on favourable terms.

Under the Investment Advisory Agreement, the Investment Advisor is required to act at all times on a basis which is fair and reasonable to the Trust, to act honestly and in good faith with a view to the best interests of the Trust and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances. The Investment Advisory Agreement provides that the Investment Advisor will not be liable in any way for any default, failure or defect in any of the securities of the Trust, nor will it be liable if it has satisfied the duties and standard of care, diligence and skill set forth above. The Investment Advisor may, however, incur liability in cases of willful misconduct, bad faith, negligence, disregard of the Investment Advisor's standard of care or material breach or default by the Investment Advisor of its obligations under the Investment Advisory Agreement.

The Investment Advisory Agreement, unless terminated as described below, will continue in effect until the termination of the Trust. The Manager may terminate the Investment Advisory Agreement if the Investment Advisor has committed certain events of bankruptcy or insolvency or is in material breach or default of the provisions thereof and, if capable of being cured, such breach has not been cured within 30 days after notice thereof has been given to the Investment Advisor and the Trustee by the Manager. Except as described above, the Investment Advisor cannot be terminated as the investment advisor to the Trust without Unitholder approval. See "Declaration of Trust and Unitholder Matters — Meetings of Unitholders and Extraordinary Resolutions".

The Investment Advisor may terminate the Investment Advisory Agreement if the Trust is in material breach or default of the provisions thereof and, if capable of being cured, such breach or default has not been cured within 30 days of notice of same to the Manager and to the Trustee or if there is a material change in the investment objectives, strategy or criteria or investment restrictions of the Trust. If the Investment Advisory Agreement is terminated, the Manager will promptly appoint one or more successor investment managers to carry out the activities of the Investment Advisor until a meeting of Unitholders is held to confirm such appointment.

The Investment Advisor is entitled to fees for its services which are payable by the Manager under the Investment Advisory Agreement as described under "Fees and Expenses" and is reimbursed for all reasonable costs and expenses incurred by the Investment Advisor on behalf of the Trust. In addition, the Investment Advisor and its directors, officers, employees and agents, will be indemnified by the Trust for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced, or other claim that is made against the Investment Advisor or any of its officers, directors, employees or agents, in the exercise of its duties as an investment advisor, except those resulting from the Investment Advisor's willful misconduct, bad faith, negligence, disregard of the Investment Advisor's standard of care or material breach or default by the Investment Advisor of its obligations under the Investment Advisory Agreement.



## **Brokerage Arrangements**

Decisions regarding the purchase and sale of portfolio securities for the Trust are made by the Trust's investment advisor taking into consideration the particular investment objectives and policies of the Trust.

Brokerage business is allocated to dealers and brokers based on quality of service and the terms offered for specific transactions including prices, volume, speed and certainty of execution, the competitiveness of commission terms and prices, the range of services and the quality of research provided and total transaction cost. The process for allocation of brokerage business would be the same as described above for dealers that are affiliated entities, but no such relationships have existed between March 31, 2010, the date of the last annual information form, and the date of this report.

There are no ongoing contractual arrangements with any brokers with respect to securities transactions.

In addition to order execution goods and services, dealers or third parties may provide research goods and services, which include: (i) advice as to the value of the securities and the advisability of effecting transactions in securities; and (ii) analyses and reports concerning securities, issuers, industries, portfolio strategy or economic or political factors and trends that may have an impact on the value of securities. Such research goods and services may be provided by the executing dealer directly (known as proprietary research) or by a party other than the executing dealer (known as third party research).

In the event of the provision of a good or service that contains an element that is neither research goods and services nor order execution goods and services ("mixed-use goods and services"), such as data analysis, software applications and data feeds, brokerage commissions will only be used to pay for the portion of such goods and services which would qualify as either research goods and services or order execution goods and services.

The investment advisor makes a good faith determination that the Trust, on whose behalf it directs to a dealer any brokerage transactions involving client brokerage commissions, in return for research and order execution goods and services from such dealer or third party, receives reasonable benefit, considering both the use of the goods or services and the amount of the client brokerage commissions paid.

Since March 31, 2010, the date of the last annual information form, the investment advisor has received order execution and research services from brokers, dealers or third parties in connection with the execution of brokerage transactions on behalf of the Trust.

Where brokerage transactions involving client brokerage commissions of the Trust have been or might be directed to a dealer in return for the provision of any good or service by the dealer or third party other than order execution, the names of such dealers or third parties will be provided upon request by contacting the Manager at 1-888-777-4019 or by email at [inquiries@brookfieldsoundvest.com](mailto:inquiries@brookfieldsoundvest.com).

## **Proxy Voting Policies and Procedures**

The Manager has adopted written policies on how proxies associated with securities held by the Trust will be voted. In general, these policies require that the all proxies will be voted on behalf of the Trust in a manner that is consistent with the best interests of the Trust and Unitholders. Pursuant to the proxy voting policy:

- (a) the Investment Advisor votes all proxies;
- (b) the Investment Advisor conducts all analysis and due diligence necessary to vote proxies in a manner that is consistent with the best interests of the Trust and Unitholders;
- (c) the Investment Advisor generally votes with management on routine matters relating to the operation of an issuer that are not expected to have a significant economic impact on the issuer and/or the securityholders unless it is determined that supporting management's position would not be in the best interests of the Trust and Unitholders; and

- (d) the Investment Advisor reviews and analyzes on a case-by-case basis, non-routine proposals that are more likely to affect the structure or operation of the issuer and to have a greater impact on the value of the investment.

In certain circumstances the Investment Advisor may have a conflict of interest in voting proxies on behalf of the Trust. If it is determined that the conflict is not material, the Investment Advisor may vote proxies notwithstanding the existence of a conflict. If it is determined that the conflict is material, the conflict will be addressed with the Independent Review Committee.

A copy of the policies and procedures that the Trust follows when voting proxies relating to portfolio securities is available on request, at no cost, by calling 1-888-777-4019 or by writing to the Manager at Suite 900, 100 Sparks Street, Ottawa, Ontario, K1P 5B7.

The Manager will prepare an annual proxy voting record for the 12-month period ending on June 30. This annual proxy voting record will be made available no later than August 31 of each year through the Internet at [www.brookfieldsoundvest.com](http://www.brookfieldsoundvest.com) and will also be available to any Unitholder on request, at no cost.

### **The Trustee**

Computershare Trust Company of Canada is the trustee of the Trust under the Declaration of Trust. The address of the Trustee is 100 University Avenue, Toronto, Ontario M5J 2Y1.

The Trustee or any successor trustee may resign upon 60 days' written notice to Unitholders and the Manager or such lesser notice as the Manager may accept. The Trustee is required to resign at the request of the Manager in certain circumstances. The Trustee may be removed with the approval of a majority of the votes cast at a meeting of Unitholders called for such purpose. Any such resignation or removal shall become effective only upon the appointment of a successor trustee. If the Trustee resigns or is removed, its successor may be appointed by the Manager. If the Trustee is removed by Unitholders, the appointment of its successor must be approved by Unitholders. If, after the resignation of the Trustee, no successor has been appointed within 90 days, the Trustee, the Manager or any Unitholder may apply to a court of competent jurisdiction for the appointment of a successor trustee.

The Declaration of Trust provides that the Trustee will not be liable in carrying out its duties thereunder except in cases of willful misconduct, bad faith, negligence or material breach or default by the Trustee of its obligations under the Declaration of Trust or in cases where the Trustee fails to act honestly and in good faith and in the best interests of Unitholders to the extent required by laws applicable to trustees, or fails to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances. In addition, the Declaration of Trust contains other customary provisions limiting the liability of the Trustee and indemnifying the Trustee, or any of its officers, directors, employees or agents, in respect of certain liabilities incurred by it in carrying out its duties.

The Trustee receives fees for acting as trustee of the Trust and to be reimbursed for all expenses and liabilities which are properly incurred by the Trustee in connection with its duties. In 2010, the Trustee was paid \$26,664.

### **CONFLICTS OF INTEREST**

The Manager currently engages in related business, and its services are not exclusive to the Trust. The Manager acts as the manager and investment advisor to other funds which may invest in various asset classes and which may be considered competitors of the Trust. In addition, the directors and officers of the Manager or its affiliates may be directors, officers, shareholders or Unitholders of one or more issuers in which the Trust may acquire securities or of corporations which act as the manager of other investment funds that invest primarily in various asset classes and which may be considered competitors of the Trust. The Manager or its affiliates may be managers or portfolio managers of one or more issuers in which the Trust may acquire securities and may be managers or portfolio managers of investment funds that invest in the same securities as the Trust. Affiliates and associates of the Manager may be shareholders or Unitholders of one or more issuers in which the Trust may acquire

securities. A decision to invest in such issuers is made in accordance with the Manager's policies regarding conflicts of interest and, where applicable, the involvement of the Independent Review Committee.

The Manager, which also serves as the Investment Advisor is engaged in a broad range of portfolio management, investment advisory and other business activities. The services of the Investment Advisor under the Investment Advisory Agreement are not exclusive and nothing in the Investment Advisory Agreement prevents the Investment Advisor or any of its affiliates from providing similar services to other investment funds and other clients (whether or not their investment objectives, strategies or criteria are similar to those of the Trust) or from engaging in other activities. The Investment Advisor's investment decisions for the Trust are made independently of those made for its other clients and independently of its own investments. On occasion, however, the Investment Advisor may make the same investments 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 Investment Advisor are engaged in the purchase or sale of the same securities, the transactions will be effected on an equitable basis.

The Declaration of Trust acknowledges that the Trustee may provide services to the Trust in other capacities, provided that the terms of any such arrangements are no less favourable to the Trust than those which would be obtained from other parties for comparable services. The services of the Trustee to the Trust are not exclusive.

### **Principal Holders of Securities**

As of March 17, 2011, there are no Unitholders that owned of record, or to our knowledge, beneficially, directly or indirectly, 10% or more of the outstanding Units of the Trust.

### **Affiliated Entities**

As of the date hereof, none of the companies that provide services to the Trust are affiliated with the Manager.

## **LOAN FACILITY**

The Trust has entered into a loan facility (the "Loan Facility") with one or more Canadian chartered banks (collectively, the "Lender"). The Lender is at arm's length to the Trust, the Trustee, the Manager and the Investment Advisor and their respective affiliates and associates.

The Loan Facility, as amended, permits the Trust to borrow up to an amount not exceeding the lesser of \$4 million (the "Credit Limit") or 7% of the value of the assets within the Portfolio, which may be used for various purposes, including purchasing additional securities for the Portfolio, effecting market purchases of Capital Units, maintaining liquidity, funding redemptions and for cash flow purposes. The interest rates, fees and expenses under the Loan Facility are typical of credit facilities of this nature and the Trust has provided a security interest in favour of the Lender over the assets of the Trust to secure such borrowings.

In order to ensure that the total amount borrowed by the Trust under the Loan Facility does not exceed at any time the Credit Limit, the Manager takes appropriate steps with the Portfolio securities which may include liquidating certain of the Portfolio securities and using the proceeds thereof to reduce the amount outstanding under the Loan Facility. The Loan Facility contains provisions to the effect that in the event of a default under the Loan Facility, the Lender's recourse will be limited solely to the assets of the Trust. Such provisions are intended to ensure that Unitholders are not liable for the obligations of the Trust under the Loan Facility.

Other than borrowing by the Trust under the Loan Facility and by issuing the Preferred Securities, the Trust does not engage in other borrowings.

## VALUATION

### Net Asset Value

The NAV of the Trust and the NAV per Capital Unit are calculated on each Valuation Date. The NAV on a particular Valuation Date will be equal to the aggregate value of the assets of the Trust, less the aggregate value of the liabilities of the Trust, including any income, net realized capital gains or other amounts made payable to Unitholders on or before such Valuation Date. The liabilities of the Trust include the obligation to repay the original subscription price of, and any accrued and unpaid interest on, the Preferred Securities. A “Valuation Date” is every Business Day (any day on which the Toronto Stock Exchange is open for trading), December 31 of each year and the Termination Date (as hereinafter defined), as well as any other date on which the Manager elects, in its discretion, to calculate the NAV of the Trust and the NAV per Capital Unit.

### Valuation of Portfolio Securities

In determining the NAV of the Trust at any time:

- (a) 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 day as of which the NAV is being determined and to be received) and interest accrued and not yet received, is deemed to be the face amount thereof unless the Manager 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 Manager determines to be the fair value thereof;
- (b) the value of any security which is listed or traded upon a stock exchange is 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 Manager 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 day as of which the NAV is being determined, all as reported by any means in common use;
- (c) the value of any security which is not listed or traded on a stock exchange or the resale of which is restricted by reason of a representation, undertaking or agreement by the Trust (or by the Trust’s predecessor in title) or by law is determined on the basis of such bid, ask price or yield equivalent quotations (which may be public quotations or may be obtained from major market makers) as the Manager reasonably determines best reflects fair value;
- (d) the value of a forward contract or of a futures contract is the gain or loss with respect thereto that would be realized if, on the Valuation Date, the position in the forward contract or the futures contract, as the case may be, were to be closed out unless “daily limits” are in effect, in which case fair value shall be based on the current market value of the underlying interest;
- (e) margin paid or deposited in respect of futures contracts and forward contracts is reflected as an account receivable and margin consisting of assets other than cash shall be noted as held as margin;
- (f) the value of any bonds, debentures and other debt obligations will be valued by taking the average of the bid and ask prices at the calculation time. Amounts drawn under the Loan Facility are valued at par. Short-term investments, including notes and money market instruments, are valued at cost plus accrued interest;
- (g) if the day as of which NAV is being determined is not a Business Day, then the securities comprising the Trust’s Portfolio and other Trust property are valued as if such day were the preceding Business Day; and

- (h) the value of all assets of the Trust quoted or valued in terms of foreign currency, the value of all funds on deposit and contractual obligations payable to the Trust in foreign currency and the value of all liabilities and contractual obligations payable by the Trust in foreign currency are determined using the prevailing rate of exchange as determined by the Manager, on the day as of which NAV is being determined.

If an investment cannot be valued under the foregoing rules or if the foregoing rules are at any time considered by the Manager to be inappropriate under the circumstances, then notwithstanding such rules, the Manager will make such valuation as it considers fair and reasonable in a manner consistent with industry practice for valuing such investment. The Manager has not deviated from the foregoing rules since the establishment of the Trust.

The net asset value of the Trust, for all purposes other than financial statements, is calculated using the valuation principles described above. An investment fund is required to calculate the net assets for purposes of its financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). Canadian GAAP requires that the fair value of actively traded securities held by the Trust should be valued at the bid price, instead of the close price or last sale price of the securities for the day. Hence, the reported value of securities held by the Trust in the annual and interim financial statements may be different from the net asset value. The financial statements of the Trust will include a reconciliation of the net assets contained in the financial statements to the net asset value used for net asset value calculation purposes.

### **NAV per Capital Unit**

The NAV per Capital Unit is the amount obtained by dividing the NAV of the Trust on a particular Valuation Date by the total number of Capital Units outstanding on that date. The NAV per Capital Unit determined on any Valuation Date will remain in effect until the next time NAV per Capital Unit is determined.

#### *Repayment Price*

The “Repayment Price” is the amount, in respect of a Preferred Security, equal to the original subscription price, together with any accrued and unpaid interest thereon.

#### *Combined Value*

A “Combined Security” is considered to consist of one Preferred Security and one Capital Unit. The “Combined Value” is the amount determined on a particular Business Day equal to the NAV per Capital Unit plus the Repayment Price.

#### *Publication of Information*

The Trust’s NAV, the NAV per Capital Unit, the Repayment Price and the Combined Value are made available weekly to the financial press for publication and through the Internet at [www.brookfieldfunds.com](http://www.brookfieldfunds.com).

## **DESCRIPTION OF THE CAPITAL UNITS AND PREFERRED SECURITIES**

The following is a summary of the material attributes and characteristics of the Capital Units and Preferred Securities as set out in the Declaration of Trust and the Trust Indenture, respectively. This summary does not purport to be complete and is subject to, and qualified by, reference to the terms of the Declaration of Trust with respect to the Capital Units and the Trust Indenture with respect to the Preferred Securities.

### **Certain Provisions of the Capital Units**

#### *General*

The Trust is authorized to issue an unlimited number of transferable, redeemable trust units of one class, each representing an equal, undivided beneficial interest in the net assets of the Trust. All Capital Units have equal

rights and privileges. Each whole Capital Unit is entitled to one vote at all meetings of Unitholders and is entitled to participate equally with respect to any and all distributions made by the Trust, including distributions of net income and net realized capital gains, and any distributions upon the termination of the Trust after payment of debts and liabilities, including, without limitation, the aggregate Repayment Price of the Preferred Securities, and liquidation expenses of the Trust. Capital Units are issued only as fully paid and are non-assessable. Fractions of Capital Units are proportionately entitled to all of these rights except voting rights.

### *Distributions*

The Trust provides Unitholders with the opportunity to receive tax efficient cash distributions. The Trust shall endeavor to pay monthly cash distributions on the Capital Units to the extent that the distributions on the Portfolio securities exceed the sum of the expenses of the Trust, including interest expenses on the Loan Facility, and the aggregate interest payments on the Preferred Securities (the “Preferred Security Interest Amount”). The Trust does not have a fixed monthly distribution target for the Capital Units, but annually determines and announces each December an anticipated distribution amount (the “Anticipated Distribution”) for the following year based upon prevailing market conditions and the Trust’s estimate of distributable cash flow for the following year.

Distributions are payable to Unitholders of record on the last Business Day of each month (each a “Record Date”). The Trust pays distributions, net of applicable non-resident withholding tax, to Unitholders on or about the fifteenth day of the following month. The Trust may make special distributions of amounts determined by the Manager to be amounts not required by the Trust for future monthly distributions.

The amounts received by the Trust from issuers whose securities are held in the Portfolio may vary from month to month and certain of these issuers may pay distributions less frequently than monthly, with the result that the monthly cash available for distribution to Unitholders could vary substantially and there can be no assurance that the Trust will make any distribution in any particular month or months. If the monthly cash available for distribution to Unitholders is consistently higher or lower than the Anticipated Distribution, then the Manager on behalf of the Trust may re-evaluate the Trust’s distribution policy.

There is no guarantee that the requisite return will be achieved by the Trust in order to meet the Anticipated Distribution. If such return is not achieved or if the borrowing costs increase, monthly distributions may be significantly reduced or may not be paid at all.

The payment of interest on the Preferred Securities will be made in priority to any distributions on the Capital Units. The Trust Indenture provides, and the Declaration of Trust provides, that the Trust may not make any cash distributions on the Capital Units if, after giving effect to the proposed distribution, the Combined Value would be less than 1.4 times the Repayment Price. Distributions on the Capital Units are conditional upon the Trust being current in its obligation to pay interest on the Preferred Securities in accordance with the terms of the Trust Indenture.

If, in any year after payment of the aggregate Preferred Security Interest Amount and any distributions paid on the Capital Units, there would otherwise remain in the Trust additional net income or net realized capital gains, the Trust intends on or before December 31 of that year, unless the Trustee determines to the contrary, to make 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 Part I of the Tax Act other than such tax on net realized capital gains that would be recoverable by it in such year by reason of the capital gains refund provisions under the Tax Act. If the Trust does not have sufficient cash available to fund all of such additional distributions, additional Capital Units having a net asset value equal to the deficiency will be issued. Immediately after such issuance, the number of outstanding Capital Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Capital Units as the Unitholder held before the issuance of the additional Capital Units except in the case of a non-resident Unitholder if tax was required to be withheld in respect of the distribution.

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

Under the SIFT Rules, a Canadian resident trust (other than a “real estate investment trust” as defined in the SIFT Rules) or partnership the units of which are listed or traded on a stock exchange or other public market and that holds one or more “non-portfolio properties” (as defined in the SIFT Rules) is a SIFT trust or SIFT partnership, as the case may be. If the SIFT Rules become applicable to the Trust, the Trust will be subject to a tax on certain income (other than taxable dividends), commencing in the taxation year in which it becomes a SIFT, notwithstanding that the income is distributed to Unitholders. Unitholders will be taxed on distributions of such income in a manner similar to dividends from taxable Canadian Corporations. The deemed dividend is eligible for the enhanced dividend tax credit if paid or allocated to a resident of Canada. The Manager has advised counsel that the Trust has not held and will not hold investments that would result in the Trust becoming subject to the SIFT Rules in any taxation year. See “Canadian Federal Income Tax Considerations”.

Capital Units are intended to provide Unitholders with a tax efficient participation in returns on the Portfolio securities. Based on the character of distributions made on the Portfolio securities to date, it is anticipated that during the next twelve months, the majority of the amounts to be distributed to Unitholders will constitute dividends. A proportion of distributions may be characterized as returns of capital for Unitholders and this proportion will be affected by the amounts received by the Trust on the Portfolio securities that are characterized as returns of capital, and the amount of net capital gains realized by, and other income of, the Trust. See “Investments of the Trust — Tax Efficiency” and “Canadian Federal Income Tax Considerations”.

#### *Redemption*

For the purposes hereof, “Redemption Proceeds Per Combined Security” is the amount equal to the Combined Value determined as at the Redemption Date (as hereinafter defined), provided that, at the sole option of the Manager, for the purposes of calculating the Redemption Proceeds Per Combined Security, the Manager may value any security which is listed or traded upon a stock exchange (or if more than one, on the stock exchange in which the security primarily trades, as determined by the Manager) by taking the volume weighted average trading price of the security on such exchange during the three most recent trading days of such exchange ending on and including such Valuation Date (as hereinafter defined), or lacking any sales during such period 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 Manager such value does not reflect the value thereof and in which case the fair market value as determined by the Manager shall be used), as at the Valuation Date, all as reported by any means in common use. The Trust may designate a portion of a Unitholder’s Capital Unit redemption proceeds as a payment out of the Trust’s net income or net realized taxable capital gains to effect an equitable allocation of such amounts among Unitholders.

A Unitholder may surrender in the month of November of each year a Capital Unit for redemption (either alone or together with the surrender of a Preferred Security for repayment), to Computershare Investor Services Inc. (in the manner described below) at least 15 Business Days prior to the last Business Day in November (the “Redemption Date”) for redemption and repayment on the Redemption Date, subject to the Trust’s right to suspend redemptions or to postpone payment of redemption proceeds in certain circumstances described under “Description of the Units — Suspension of Redemptions and Repayments”. Capital Units and Preferred Securities surrendered for redemption and repayment in this manner will be redeemed on the Redemption Date (unless the Trust elects to re-circulate those Capital Units and Preferred Securities and the Unitholder has not withheld its consent to such re-circulation; see “Description of the Units — Resale”). A Unitholder who redeems Capital Units and surrenders Preferred Securities will receive payment therefor on or before the fifteenth Business Day following such Redemption Date (the “Redemption Payment Date”).

*Concurrent Annual Redemption:* A Unitholder who surrenders a Capital Unit together with a Preferred Security will receive an amount equal to the Redemption Proceeds Per Combined Security minus an amount equal to the aggregate of all brokerage fees, commissions and other costs incurred by the Trust in connection with such payment, including, but not limited to, expenses incurred in liquidating underlying Portfolio securities and securities movement charges.

*Annual Redemption of Capital Units:* A Unitholder who surrenders a Capital Unit for redemption (without surrendering a corresponding Preferred Security for repayment) will receive an amount equal to the Redemption Proceeds Per Combined Security, minus the price paid by the Trust for one Preferred Security in the market or, if the Trust is unable to purchase a Preferred Security in the market, pursuant to the Call Right (as hereinafter defined),

and minus an amount equal to the aggregate of all brokerage fees, commissions and other costs incurred by the Trust in connection with such payment, including, but not limited to, expenses incurred in liquidating underlying Portfolio securities, securities movement charges and costs relating to the purchase of one Preferred Security. The price paid by the Trust for Preferred Securities in the market may be higher than the price the Trust would pay if it redeemed Preferred Securities pursuant to the Call Right.

Any unpaid distribution payable on or before the Redemption Date in respect of Capital Units tendered for redemption on a Redemption Date will also be paid on the Redemption Payment Date. The NAV per Capital Unit may be lower than the original subscription price. The NAV per Capital Unit will vary depending on a number of market factors, including interest rates, volatility in the equity and debt markets and the volatility of the Portfolio securities. See “Risk Factors”.

The redemption proceeds paid by the Trust in connection with the redemption of a Combined Security shall be allocated as follows: (i) as to the portion of such value equal to the original subscription price of, and any accrued and unpaid interest on, the Preferred Security, as a repayment in full of such Preferred Security, and (ii) as to the remainder of such value, as the proceeds of redemption of the Capital Unit.

The redemption right and, as applicable, the repayment right must be exercised by causing written notice to be given to Computershare Investor Services Inc. and the Trust not later than 5:00 p.m. (Toronto time) on the fifteenth Business Day prior to a Redemption Date. The surrender of Capital Units and Preferred Securities will be irrevocable upon the delivery of notice to Computershare Investor Services Inc., except with respect to those Capital Units or Preferred Securities which are not paid for by the Trust on the relevant Redemption Payment Date.

Any Capital Units outstanding on the Termination Date will be redeemed by the Trust on such date. On such redemption, each Unitholder will receive for each Capital Unit redeemed the amount, if any, equal to a pro rata share of the net assets of the Trust remaining after payment or accrual of all debts and liabilities (including the aggregate Repayment Price and contingent expenses) and liquidation expenses of the Trust.

#### *Market Purchases*

The Trust may at any time, in its discretion, and subject to the receipt of any necessary regulatory approvals, purchase Capital Units offered in the market provided that, at the time of any such purchase, the Trust must concurrently purchase an equal number of Preferred Securities and the aggregate of the market price per Preferred Security and the market price per Capital Unit at such time shall be less than the Combined Value.

### **Certain Provisions of the Preferred Securities**

#### *General*

The Preferred Securities authorized for issue under the initial public offering were limited in aggregate principal amount to \$161,000,000. The Trust may, however, from time to time, issue further Preferred Securities (or securities of another series), subject to the limitation described below. The Preferred Securities are direct unsecured debt obligations issued by the Trust and are not secured by any mortgage, pledge, hypothec or other charge. See “Description of the Units — Certain Provisions of the Preferred Securities — Subordination” below. The Preferred Securities are issuable only in denominations of \$10 and integral multiples thereof.

#### *Interest Payments*

Securityholders are entitled to receive fixed quarterly interest payments of \$0.15 per Preferred Security, (the “Preferred Security Interest Amount”) or 6.0% per annum on the original subscription price of \$10.00, which is paid, net of applicable non-resident withholding tax, quarterly in arrears on the fifteenth day of each of March, June, September and December of each year up to and including the Maturity Date (or if the fifteenth day is not a Business Day, no later than the following Business Day). Interest will accrue on all unpaid interest amounts.



### *Payment on Maturity*

The Preferred Securities will mature on March 31, 2015, or automatically on such earlier date upon which the Trust terminates (any such date being the “Maturity Date”), at which date the Repayment Price of each Preferred Security will be payable by the Trust, by payment by the Trust of such amount to the Indenture Trustee. The Maturity Date also may be extended by Securityholders as described under “Termination of the Trust”.

Preferred Securities may be called by the Trust and purchased prior to the Maturity Date (the “Call Right”) if, as a result of the redemption of Capital Units, the aggregate number of outstanding Preferred Securities would exceed the aggregate number of outstanding Capital Units. The Trust will only exercise the Call Right to the extent that it is unable to purchase Preferred Securities in the market. In such case, Preferred Securities will be redeemed at a price per Preferred Security which until March 31, 2008 will be equal to \$10.80 and which will decline by \$0.10 each year thereafter to \$10.10 after March 31, 2014, plus any accrued and unpaid interest. The Trustee will, in its sole discretion, determine the Securityholders whose Preferred Securities will be redeemed pursuant to any exercise of the Call Right.

Notice of repayment will be given to CDS Participants on behalf of the beneficial owners of Preferred Securities at least 45 days prior to the Maturity Date and at least five Business Days prior to the date of any other purchase pursuant to the Call Right.

### *Concurrent Annual Redemption*

A Securityholder may surrender a Preferred Security for repayment together with a Capital Unit for redemption at least 15 Business Days prior to a Redemption Date for repayment on the Redemption Date. See “Description of the Units — Certain Provisions of the Capital Units — Redemptions” and “Description of the Units — Suspension of Redemptions and Repayments”.

Preferred Securities which have been surrendered to the Trust for repayment in the manner described above are, subject to the Trust’s right to recirculate Capital Units and Preferred Securities described under the heading “Description of the Units — Resale”, deemed to be outstanding until (but not after) the close of business on the Redemption Date, unless not repaid on or before the Redemption Payment Date in which event such Preferred Securities will remain outstanding.

### *Subordination*

The payment of the principal of, and interest on, the Preferred Securities is subordinated in right of payment, as set forth in the Trust Indenture, to the prior payment in full of all “Senior Indebtedness” of the Trust, which is defined in the Trust Indenture as the principal of and premium, if any, and interest on, and other amounts in respect of, all indebtedness of the Trust (whether outstanding as at the date of the Trust Indenture or thereafter incurred, and including, without limitation, indebtedness to trade creditors of the Trust and ordinary and extraordinary liabilities), other than indebtedness evidenced by the Preferred Securities, and all other existing and future notes or other instruments of the Trust which, by the terms of the instrument creating or evidencing the indebtedness, is expressed to rank *pari passu* with, or subordinate in right of payment to, the Preferred Securities.

The Trust Indenture provides that in the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization or other similar proceedings relating to the Trust, or to its property or assets, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of the Trust, whether or not involving insolvency or bankruptcy, or any marshalling of the assets and liabilities of the Trust, then those holders of Senior Indebtedness, including any indebtedness to trade creditors, will receive payment in full before the Securityholders are entitled to receive any payment or distribution of any kind or character, whether in cash, property or securities, which may be payable or deliverable in any such event in respect of any of the Preferred Securities or any accrued and unpaid interest thereon. The Trust Indenture also provides that the Trust will not make any payment, and the Securityholders are not entitled to demand, institute proceedings for the collection of, or receive any payment or benefit (including without limitation by set-off, combination of accounts or realization of security or otherwise in any manner whatsoever) on account of indebtedness represented by the Preferred Securities (a) in a manner inconsistent with the terms (as they exist on the date of issue) of the Preferred Securities, or (b) at

any time when an event of default has occurred under the Senior Indebtedness and is continuing and the notice of such event of default has been given by or on behalf of the holders of Senior Indebtedness to the Trust, unless the Senior Indebtedness has been repaid in full.

#### *Priority Over Capital Unit Distributions*

The payment of interest on the Preferred Securities is made in priority to any distributions on the Capital Units. The Trust Indenture provides, and the Declaration of Trust provides, that the Trust may not make any cash distributions on the Capital Units if, after giving effect to the proposed distribution, the Combined Value is less than 1.4 times the Repayment Price.

The Trust will fund the repayment to the Securityholders on the Maturity Date of the aggregate Repayment Price with the proceeds from the sale or redemption of the Portfolio securities and any other net assets of the Trust in priority to any distribution of assets of the Trust on the Capital Units.

The Preferred Securities do not represent interests in or obligations of CIBC Mellon Trust Company (other than in its capacity as the Indenture Trustee), Computershare Trust Company of Canada (other than in its capacity as the Trustee), the Manager, the beneficiaries of the Trust or any affiliate or any of the foregoing. As such, recourse under the Preferred Securities is limited to the assets of the Trust. A Securityholder has no recourse against the Indenture Trustee or the Trustee in their respective personal capacities or to the assets of the Indenture Trustee or the Trustee other than the assets of the Trust, nor any recourse to Unitholders or their assets.

#### *Events of Default*

The Trust Indenture provides that an event of default (“Event of Default”) in respect of the Preferred Securities will occur if any one or more of the following described events has occurred and is continuing with respect to the Preferred Securities: (a) failure to pay the Preferred Security Interest Amount for more than four calendar quarters after such amount becomes due; (b) failure to pay the Repayment Price of the Preferred Securities, whether at maturity, by declaration or otherwise (other than pursuant to a redemption when a suspension is in effect); (c) certain events of bankruptcy, insolvency or reorganization of the Trust; or (d) default in the observance or performance of any material covenant or condition of the Trust Indenture and the continuance of such default for a period of 30 days after notice in writing has been given by the Indenture Trustee to the Trust specifying such default and requiring the Trust to rectify the same. If an Event of Default has occurred and is continuing, the Indenture Trustee may, in its discretion, and must upon request of Securityholders holding not less than 25% of the number of Preferred Securities then outstanding (subject to receipt of an appropriate indemnity), declare the aggregate original subscription price of, and interest on, all outstanding Preferred Securities to be immediately due and payable. In certain cases, the Securityholders holding a majority of the number of the Preferred Securities then outstanding may, on behalf all Securityholders, waive any Event of Default and/or cancel any such declaration upon such terms and conditions as such Securityholders prescribe.

#### *Modification*

The rights of the Securityholders, as well as holders of any other series of securities that may be issued under the Trust Indenture, may be modified in accordance with the terms of the Trust Indenture. For that purpose, among others, the Trust Indenture contains certain provisions that make it binding on all Securityholders resolutions passed at meetings of Securityholders by votes cast thereat by Securityholders holding not less than 66 <sup>2</sup>/<sub>3</sub>% of the number of Preferred Securities present at the meeting or represented by proxy, or rendered by instruments in writing signed by the Securityholders holding not less than 66 <sup>2</sup>/<sub>3</sub>% of the number of Preferred Securities (an “Extraordinary Securityholder Resolution”). In addition, the Maturity Date also may be extended by Securityholders by a majority vote. See “Termination of the Trust”. Quorum for a meeting of Securityholders consists of two or more Securityholders present in person or by proxy representing not less than 10% of the number of Preferred Securities then outstanding.

In addition, the Trust Indenture provides and the Declaration of Trust provides that where the Indenture Trustee determines, on the advice of counsel, that any modification to the Declaration of Trust that requires the approval of Unitholders would affect the timeliness or priority of payments to Securityholders, or otherwise

materially adversely affects the Securityholders as a class, such change may not be made to the Declaration of Trust unless (i) the Indenture Trustee has determined, on the advice of counsel, that such modification does not require the approval of Securityholders, or (ii) Securityholders have approved such modification as required under the Trust Indenture.

#### *Limitation on Issuance of Additional Preferred Securities*

The Trust Indenture provides that the Trust shall not issue additional debt securities ranking in preference to the Preferred Securities. The Trust will only issue additional Preferred Securities on the basis that, immediately following such issuance, an equal number of Preferred Securities and Capital Units will be outstanding.

#### *Market Purchases*

The Trust may at any time, in its discretion, and subject to the receipt of any necessary regulatory approvals, purchase Preferred Securities offered in the market; provided, however, that if any such purchase is not made in conjunction with the redemption of Capital Units, the Trust will not purchase Preferred Securities unless it at the same time purchases an equal number of Capital Units and the aggregate of the market price per Preferred Security and the market price per Capital Unit is less than the Combined Value at such time.

#### *Credit Rating*

On December 4, 2008, the Preferred Securities were downgraded from Pfd-2 to Pfd-5 by Dominion Bond Rating Service Limited (“DBRS”). On December 6, 2010, the Preferred Securities were upgraded from Pfd-5 to Pfd-4 by Dominion Bond Rating Service Limited (“DBRS”). Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. DBRS’ rating of the Preferred Securities is on a preferred security rating scale that ranges from Pfd-1 to Pfd-5, which represents the range from highest to lowest quality of such securities rated. According to DBRS, securities rated Pfd-4 are speculative and the degree of protection afforded to dividends and principal is uncertain, particularly during periods of economic adversity. The credit ratings accorded to the Preferred Securities are not recommendations to purchase, hold or sell the Preferred Securities. There can be no assurance that any rating will remain in effect for any given period of time or that any rating will not be withdrawn or revised by a rating agency at any time.

#### **Suspension of Redemptions and Repayments**

The Trust may suspend the redemption of Capital Units and the repayment of Preferred Securities or postpone repayment of redemption proceeds: (i) during any period when the Investment Advisor advises the Manager that normal trading is suspended on a market where more than 50% of the securities in the Portfolio (in terms of dollar value) trade and, if those securities are not traded on any other exchange that represents a reasonably practical alternative for the Trust; (ii) with the permission of the securities regulatory authorities (if required), for any period not exceeding 120 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Trust or which impair the ability of the Trustee to determine the value of the assets of the Trust, (iii) if, after giving effect to redemptions, the Combined Value would be less than 1.4 times the Repayment Price, or (iv) if the Trust would be insolvent or otherwise unable to pay its liabilities as they become due after giving effect to such redemptions (and repayment, if applicable). The suspension shall apply to all requests for redemption or repayment received prior to the suspension date but for which payment has not been made, as well as to all requests received while the suspension is in effect. All Unitholders or Securityholders making such requests will be advised by the Manager of the suspension and that the redemption or repayment will be effected at a price determined following the resumption of redemptions and repayments. All such Unitholders and Securityholders will have, and will be advised that they have, the right to withdraw their requests for redemption or repayment if such requests were submitted prior to a suspension and payment has not been made, or if such requests were submitted during a period of suspension. Redemptions and repayments will resume in any event on the first day on which the condition giving rise to the suspension has ceased to exist, provided that no other circumstances under which a suspension is authorized then exists. To the extent it is not inconsistent with rules and regulations promulgated by any government body having jurisdiction over the Trust, any declaration of suspension made by the Manager will be conclusive.

## **Resale**

The Trust entered into an agreement (a “Recirculation Agreement”) with RBC Dominion Securities Inc. (the “Recirculation Agent”) whereby the Recirculation Agent agreed to use commercially reasonable efforts to find purchasers for any Capital Units and Preferred Securities properly surrendered for redemption or repayment, provided that the holder of the Capital Units so surrendered has not withheld consent thereto. The Trust may from time to time appoint additional dealers to act as recirculation agents for any Capital Units and Preferred Securities surrendered for redemption or repayment. The Trust may, but is not obligated to, require the Recirculation Agent to seek such purchasers and, in such event, the amount to be paid to the Unitholder on the Redemption Payment Date will be an amount equal to the proceeds of the sale of the Capital Units less any applicable commission and the amount to be received for Preferred Securities will be an amount equal to the proceeds of sale of the Preferred Securities less any applicable commission. Such amount will not be less than the redemption proceeds otherwise payable for such Capital Units and the Repayment Price otherwise payable for such Preferred Securities.

## **DECLARATION OF TRUST AND UNITHOLDER MATTERS**

### **General**

The Trust is an investment trust created pursuant to the Declaration of Trust and governed by the laws of the Province of Ontario.

### **Issuance of Additional Capital Units**

The Trust does not currently intend to issue additional Capital Units except: (i) by way of private placement or public offering where the net proceeds per Capital Unit to be received by the Trust are not less than the most recently calculated NAV per Capital Unit prior to the date of the setting of the subscription price by the Trust; (ii) on a distribution of Capital Units or on an automatic reinvestment of distributions of net income or net realized capital gains; or (iii) with the approval of Unitholders by Extraordinary Resolution. It is not anticipated that any additional Capital Units will be issued unless, after giving effect to such offering, there will be an equal number of Preferred Securities and Capital Units outstanding.

### **Meetings of Unitholders and Extraordinary Resolutions**

The Trustee may, at any time, convene a meeting of the Unitholders and will be required to convene a meeting on receipt of a request, in writing, by the Manager or by Unitholders holding in aggregate 10% or more of the outstanding Capital Units. The Trustee will convene such meeting within 60 days of receipt of such request.

Except in respect of an Extraordinary Resolution (as defined hereinafter), a quorum for any meeting of Unitholders is two or more persons present in person or by proxy representing not less than 5% of the Capital Units then outstanding. A quorum for a meeting at which an Extraordinary Resolution is to be considered is two or more Unitholders present in person or by proxy representing not less than 10% of the Capital Units then outstanding. If a quorum is not present at a meeting within 30 minutes after the time fixed for the meeting, the meeting will be cancelled if convened pursuant to a request of Unitholders, but otherwise will be adjourned, and will be held at the same time and place on the day which is 14 days later (or if that date is not a Business Day, the first Business Day prior to that date). The Manager will give at least three days’ notice by press release to Unitholders of the date of the reconvening of the meeting and, at the reconvened meeting, persons present in person or represented by proxy will constitute a quorum. Each Unitholder is entitled to one vote per Capital Unit held.

Any matter to be considered at a meeting of Unitholders, other than certain matters requiring the approval of Unitholders by Extraordinary Resolution or unanimous approval of Unitholders as discussed under “Declaration of Trust and Unitholder Matters — Amendments to the Declaration of Trust”, will require the approval of Unitholders by a resolution passed by holders of not less than 50% of the Capital Units voting thereon at a meeting duly convened for the consideration of such matter.

Certain matters require the approval of Unitholders by extraordinary resolution (an “Extraordinary Resolution”). An Extraordinary Resolution is a resolution passed by holders of not less than 66 <sup>2</sup>/<sub>3</sub>% of the Capital

Units voting thereon at a meeting duly convened for the consideration of such matter. The following matters may be undertaken only with the approval of Unitholders by an Extraordinary Resolution:

- (a) any change in the investment objectives, investment strategy, investment criteria or investment restrictions as described under “Investments of the Trust”, unless such changes are necessary to ensure compliance with applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time;
- (b) any change of the Manager (other than to an affiliate) or termination of the Management Agreement except in accordance with its terms;
- (c) any change of the Investment Advisor (other than to an affiliate) or termination of the Investment Advisory Agreement other than in circumstances where the Investment Advisor has been removed by the Manager on behalf of the Trust pursuant to the Investment Advisory Agreement;
- (d) any material amendment to the Declaration of Trust, other than those amendments that require unanimous Unitholder approval or the consent of the Manager as discussed under “Declaration of Trust and Unitholder Matters — Amendments to the Declaration of Trust”;
- (e) any change in the basis of the calculation of a fee or expense charged to the Trust in a way that could result in an increase in charges to the Trust;
- (f) the liquidation, dissolution or early termination of the Trust, other than an extension of the Termination Date;
- (g) the sale of all or substantially all of the assets of the Trust other than in the ordinary course of its activities;
- (h) any amendment, modification or variation in the provisions or rights attaching to the Capital Units;
- (i) any issue of Capital Units at a subscription price less than the NAV per Capital Unit calculated prior to the entering into of the commitment by the subscriber to purchase such Capital Units; and
- (j) any change in the frequency of calculating the NAV per Capital Unit to less often than daily.

The Trust does not intend to hold annual meetings of Unitholders unless required to do so by applicable securities regulatory authorities.

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

A material amendment to the Declaration of Trust may only be made with the consent of the Unitholders given by Extraordinary Resolution. However, unless all of the Unitholders consent thereto, no amendment can be made to the Declaration of Trust which would have the effect of reducing the interests in the Trust of the Unitholders, increasing the liability of any Unitholder, or changing the right of any Unitholder to vote at any meeting. No amendment may be made to the Declaration of Trust which would have the effect of reducing the fees payable to the Manager or terminating the Manager unless the Manager, in its sole discretion, consents.

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

- (a) remove any conflicts or other inconsistencies which may exist between any terms of the Declaration of Trust and any provisions of any law or regulation applicable to or affecting the Trust;

- (b) make any change or correction in the Declaration of Trust which is of a typographical nature or is required to cure or correct any ambiguity or defective or inconsistent provision, clerical omission, mistake or manifest error contained therein;
- (c) bring the Declaration of Trust into conformity with applicable laws, rules and policies of Canadian securities regulators or with current practice within the securities industry, provided that any such amendment does not adversely affect the pecuniary value of the interests of the Unitholders;
- (d) ensure continuing compliance with applicable laws (including the Tax Act), regulations, requirements or policies of any governmental authority having jurisdiction over the Trustee or the Trust (including ensuring that the Trust continues to qualify as a “unit trust” and a “mutual fund trust” or a “registered investment”); or
- (e) make any change to the terms of the Declaration of Trust to provide added protection to Unitholders or which would otherwise not be prejudicial to Unitholders.

Except for changes to the Declaration of Trust which require the approval of Unitholders or changes described above which require neither approval of nor prior notice to Unitholders, the Declaration of Trust may be amended from time to time by the Trustee at the request of the Manager upon not less than 30 days’ prior written notice to Unitholders.

The Loan Facility requires the Lender’s prior written consent to amendments to the Declaration of Trust.

### **Reporting to Unitholders**

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

Prior to any meeting of Unitholders which is called under the provisions of the Declaration of Trust, the Trust provides the Unitholders (along with notice of such meeting) all such information as is required by applicable law to be provided to such holders.

### **Non-Resident Unitholders**

At no time may non-residents of Canada, including for this purpose partnerships with one or more non-resident members, be the beneficial owners of a majority of the Capital Units. The Trustee shall inform the transfer agent and registrar of the Trust of this restriction. The Trustee may require declarations as to the jurisdictions in which beneficial owners of Capital Units are resident. If the Trustee becomes aware, as a result of requiring such declarations as to beneficial ownership or otherwise, that the beneficial owners of 49% of the Capital Units then outstanding are, or may be, non-residents, or that such a situation is imminent, the Trustee may make a public announcement thereof. If the Trustee determines that a majority of the Capital Units are beneficially held by non-residents, the Trustee may send a notice to such non-resident Unitholders, chosen in inverse order to the order of acquisition or in such manner as the transfer agent and registrar of the Trust may consider equitable and practicable, requiring them to sell their Capital Units or a portion thereof to residents of Canada within a specified period of not less than 30 days. If the Unitholders receiving such notice have not sold the specified number of Capital Units or provided the Trustee with satisfactory evidence that they are not non-residents within such period, the Trustee may, on behalf of such Unitholders, sell such Capital Units and, in the interim, shall suspend the voting and distribution rights attached to such Capital Units. Upon such sale, the affected holders shall cease to be beneficial holders of Capital Units and their rights shall be limited to receiving the net proceeds of sale of such Capital Units.

### **BOOK-ENTRY ONLY SYSTEM**

Book-entry only certificates representing Capital Units and Preferred Securities were issued in registered form to The Canadian Depository for Securities Limited (“CDS”). Any purchase or transfer of Capital Units or

Preferred Securities 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 Capital Units and/or Preferred Securities will receive a customer confirmation of purchase from the CDS Participant from whom such Capital Units and/or Preferred Securities are purchased in accordance with the practices and procedures of such CDS Participant. Reference in this annual information form to a Unitholder or a Securityholder means, unless the context otherwise requires, the owner of the beneficial interest in such Capital Units or Preferred Securities, as applicable.

No Unitholder or Securityholder will be entitled to a certificate or other instrument from the transfer agent or CDS for Capital Units or Preferred Securities evidencing that person’s interest in or ownership of Capital Units and/or Preferred Securities, or will be shown on the records maintained by CDS, except through an agent who is a CDS Participant. All distributions in respect of Capital Units and payments in respect of Preferred Securities will be made by the Trust or the Indenture Trustee, as applicable, to CDS and these amounts will be forwarded by CDS to CDS Participants, and thereafter to the applicable Unitholders and Securityholders.

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

The Trustee, on behalf of the Trust, has the option to terminate the book-entry only system through CDS, in which case Capital Units and Preferred Securities in fully registered certificated form will be issued to Unitholders and Securityholders, as of the effective date of such termination.

## **TERMINATION OF THE TRUST**

Under the amended and restated Declaration of Trust:

- (1) The Trust does not have a fixed termination date but may be terminated at any time upon not less than 90 days’ written notice to the Trustee from the Manager with the prior approval of Unitholders by a resolution passed by holders of more than 50% of the Units voting thereon at a meeting duly convened for the consideration of such termination, provided that Unitholders holding at least 10% of the Units outstanding on the record date for voting at the meeting vote in favour of such resolution.
- (2) The Manager may, in its sole discretion, wind-up the Trust, without the approval of Unitholders, if the net asset value of the Trust falls below \$15 million. The Manager may not wind-up or terminate the trust without the approval of Unitholders unless Unitholders are provided not less than 60 days’ and not more than 90 days’ notice of the termination or winding up, as applicable, and the issuance of a press release announcing the termination of the Trust to be issued prior to the termination.
- (3) Any such event is referred to as the “**Termination Date**”. The Manager may, in its discretion and upon not less than 30 days’ prior written notice to Unitholders, extend the Termination Date by a maximum of 180 days if the Manager would be unable to convert all the assets of the trust to cash and the Manager determines that it would be in the best interests of the Unitholders to do so.

## **FEES AND EXPENSES**

Pursuant to the terms of the Management Agreement, the Manager is entitled to a management fee at an annual rate of 1.10% of the total assets of the Trust less the amount outstanding under the Loan Facility. Pursuant to the terms of the Investment Advisory Agreement, the Investment Advisor is entitled to an advisory fee which will be payable by the Manager out of the management fee. Fees payable to the Manager and the Investment Advisor are calculated and payable monthly based on the total assets of the Trust less the amount outstanding under the Loan Facility as at the last Valuation Date of each month.

The Trust pays to the Manager a service fee (calculated and paid as soon as practicable after the end of each calendar quarter), equal to 0.40% per annum of the NAV, plus applicable taxes. In turn, the Manager pays an

equal aggregate service fee, plus applicable taxes, to investment dealers based on the respective number of Capital Units held by clients of the sales representatives of such dealers at the end of the relevant calendar quarter.

The Trust pays for all expenses incurred in connection with the operation and administration of the Trust. These expenses include, without limitation: (a) mailing and printing expenses for periodic reports to Unitholders and other Unitholder communications including marketing and advertising expenses; (b) fees payable to the custodian for acting as custodian of the assets of the Trust; (c) fees payable to the Trustee for acting as trustee of the Trust; (d) fees payable to the Indenture Trustee for acting as indenture for the Preferred Securities; (e) fees payable to Computershare Investor Services Inc. at normal market rates for acting as registrar and transfer agent; (f) fees and expenses payable to the members of the Investment Review Committee; (g) fees payable to the independent members of the Investment Review Committee; (h) any additional fees payable to the Manager for performance of extraordinary services on behalf of the Trust; (i) fees payable to the auditors and legal advisors of the Trust; (j) regulatory filing, stock exchange and licensing fees; and (k) expenditures incurred upon the termination of the Trust. Such expenses also include expenses of any action, suit or other proceedings in which or in relation to which the Manager, the Investment Advisor or the Trustee, or members of the Investment Review Committee is entitled to indemnity by the Trust. See “Management of the Trust”. The Trust is subject to an independent audit and report thereon to the Trustee and the Manager does provide reasonable access to its books and records for such purpose. The Trust is also responsible for all commissions and other costs of securities transactions, debt service and costs relating to the Loan Facility and any extraordinary expenses which it may incur from time to time.

### **CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

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 Capital Units or Preferred Securities. This summary is applicable to a purchaser of Capital Units or Preferred Securities who is an individual (other than a trust) and who, for purposes of the Tax Act and at all relevant times, is resident or deemed to be resident in Canada, deals at arm’s length with the Trust, is not affiliated with the Trust and holds Capital Units or Preferred Securities, as applicable, as capital property. Generally, the Preferred Securities and Capital Units will be considered to be capital property to a purchaser provided that the purchaser does not hold such securities in the course of carrying on a business of trading or dealing in securities and has not acquired the Preferred Securities or Capital Units in one or more transactions considered to be an adventure or concern in the nature of trade. Certain Unitholders or Securityholders who might not otherwise be considered to hold Capital Units or Preferred Securities as capital property may, in certain circumstances, be entitled to have such securities and all other “Canadian securities” (as defined in the Tax Act) owned or subsequently acquired by them treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Such holders should consult their own tax advisors regarding their particular circumstances.

This summary is based on the provisions of the Tax Act and the regulations thereto (the “Regulations”) in force on the date hereof and counsel’s understanding of the current publicly available administrative and assessing practices of the Canada Revenue Agency (the “CRA”). There can be no assurance that the CRA will not change its administrative and assessing practices. This summary takes into account all specific proposals to amend the Tax Act and the Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the “Tax Proposals”) and a certificate of the Trust as to certain matters. This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial decision or action, nor does it take into account other federal or any provincial, territorial or foreign income tax legislation or considerations. There can be no assurance that the Tax Proposals will be enacted in the form proposed or at all.

This summary is based on the assumption that the Trust qualifies and will continue to qualify at all times as a “unit trust” and a “mutual fund trust” within the meaning of the Tax Act and that the Trust has not been established and will not be maintained primarily for the benefit of non-residents. In the event the Trust were not to qualify as a mutual fund trust at all times, the income tax consequences described below and under “Eligibility for Investment” would in some respects be materially different.

This summary is based on the assumption that none of the issuers of the securities in the Portfolio are or will be foreign affiliates of the Trust or of any Unitholder and that none of the securities in the Portfolio are or will be a “tax shelter investment” within the meaning of the Tax Act. This summary is also based on the assumption that



the Trust does not and will not invest in a share of, an interest in, or debt of a non-resident entity or an interest in or a right or option to acquire such a share, interest or debt that would cause the Trust to include amounts in income under section 94.1 of the Tax Act as proposed to be amended by the Tax Proposals contained in the March 4, 2010 Canadian Federal budget or securities of a non-resident trust other than an “exempt foreign trust” under the proposals to amend the Tax Act announced on November 9, 2006 as proposed to be revised under the Tax Proposals contained in the March 4, 2010 Canadian Federal budget (or such proposals as amended or enacted or successor provisions thereto).

This summary is based on the assumption that the Trust is not and will not be a SIFT trust within the meaning of the SIFT Rules. The Manager has advised counsel that the Trust has not and will not at any time hold property that is “non-portfolio property” within the meaning of the SIFT Rules such that the Trust is not and will not itself be a SIFT trust in any taxation year. If the Trust were to become a SIFT trust within the meaning of the SIFT Rules, the income tax considerations discussed herein could be materially and adversely different in certain respects.

On June 22, 2007, the SIFT Rules that impose a tax on certain income (other than taxable dividends) earned by most publicly traded trusts and partnerships (other than certain REITs) and treat distributions or allocations of such income to investors as a dividend from a taxable Canadian corporation were enacted. Proposed amendments to the SIFT Rules were announced by the Minister of Finance (Canada) on December 20, 2007, draft legislative proposals containing proposed amendments to the SIFT Rules were released on July 14, 2008, a Notice of Ways and Means Motion containing proposed amendments to the SIFT Rules was tabled in the House of Commons on November 28, 2008 and on February 2, 2009. Legislation to implement the proposed amendments contained in the February 2, 2009 Notice of Ways and Means Motion was contained in Bill C-10 which received royal assent on March 12, 2009. Under the SIFT Rules, a Canadian resident trust or partnership the units of which are listed or traded on a stock exchange or other public market and that hold one or more “non-portfolio properties” (as defined in the SIFT Rules) is a SIFT trust or SIFT partnership, as the case may be. Income from and capital gains from the disposition of non-portfolio properties earned by a SIFT trust or SIFT partnership is taxed at a rate similar to income earned by a corporation and distributions or allocations, as the case may be, of such income to investors is taxed in a manner similar to dividends from taxable Canadian corporations. The deemed dividend is eligible for the enhanced dividend tax credit if paid or allocated to a resident of Canada. The SIFT Rules are effective for a SIFT’s taxation year ending after 2006, except that the application of the SIFT Rules is generally delayed until the SIFT’s taxation year ending after 2010 if the SIFT would have been a SIFT on October 31, 2006, had the SIFT Rules been enacted on that date. However, the deferral will be lost and the SIFT Rules will apply immediately in any taxation year ending after 2006 if the SIFT exceeds the normal growth limitations set out in the Normal Growth Guidelines, unless the excess arose from a prescribed transaction or if a trust or partnership that would not have been a SIFT on October 31, 2006 subsequently becomes a SIFT at any time thereafter. The Normal Growth Guidelines establish objective tests with respect to how much a SIFT is permitted to grow in the interim period from November 1, 2006 to the end of 2010 without becoming immediately subject to the SIFT Rules. The SIFT Rules do not change the tax treatment of distributions that are paid as a return of capital by SIFT trusts. The Trust was established to provide investors with exposure to the Portfolio that includes securities of income trusts (and may include securities of partnerships) to which the SIFT Rules may apply. No assurance can be given that the Canadian federal income tax law respecting the taxation of income trusts and other flow-through entities will not be further changed in a manner that adversely affects the Trust and its Unitholders.

On September 16, 2004, the Minister of Finance (Canada) released draft amendments to the Tax Act under which a trust would lose its status as a mutual fund trust if the aggregate fair market value of all units issued by the trust held by one or more non-residents (including partnerships with one or more non-resident members) is more than 50% of the aggregate fair market value of all units issued by the trust where more than 10% (based on fair market value) of the trust’s property is taxable Canadian property or certain other types of property. Such draft amendments do not provide any means of rectifying a loss of mutual fund trust status. On December 6, 2004, the Minister of Finance (Canada) tabled a Notice of Ways and Means Motion which did not include these proposed changes. The Department of Finance (Canada) has suspended implementation of these proposed changes pending further consultation with interested parties.

On October 31, 2003, the Department of Finance (Canada) released, for public consultation, draft proposed amendments (the “October 31, 2003 Proposals”) to the Tax Act that would require, for taxation years commencing after 2004, that there be a reasonable expectation of cumulative profit from a business or property in order for a

taxpayer to claim a loss in a particular taxation year from the business or property, and that would make it clear that “profit” for this purpose does not include capital gains. The October 31, 2003 Proposals could, among other things, adversely affect a Securityholder or a Unitholder who has borrowed funds in connection with the acquisition of Preferred Securities or Capital Units. In the Canadian federal budget tabled in the House of Commons on February 23, 2005 by the Minister of Finance (Canada), it was announced that the Department of Finance (Canada) would replace the October 31, 2003 Proposals with a more modest legislative initiative which is to be released for public comment. No such proposal has been released to date. This summary does not describe the income tax considerations relating to the deductibility of interest on money borrowed to acquire Preferred Securities or Capital Units. Securityholders or Unitholders should consult their own tax advisors in this regard.

**This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Capital Units or Preferred Securities. Moreover, the income and other tax consequences of acquiring, holding or disposing of Capital Units or Preferred Securities will vary depending on the investor’s particular circumstances including the province(s) or territory(ies) 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 particular investor. Prospective investors should consult their own tax advisors for advice with respect to the income tax consequences of an investment in Capital Units or Preferred Securities, based on their particular circumstances.**

### **Taxation of the Trust**

The Trust is subject to tax under Part I of the Tax Act in each taxation year on its income for the year, including net realized taxable capital gains, computed in accordance with the provisions of the Tax Act, less the portion thereof that it claims in respect of amounts paid or payable to Unitholders in the year. An amount will be considered to be payable to a Unitholder in a taxation year if it is paid in the year by the Trust or the Unitholder is entitled in that year to enforce payment of the amount.

With respect to each issuer included in the Portfolio that is a Canadian resident trust and that is not subject in a taxation year to the tax imposed under the SIFT Rules, the Trust will be required to include in the calculation of its income such portion of the net income, including net taxable capital gains, of such issuer as is paid or payable to the Trust by the issuer in the year, notwithstanding that certain of such amounts may be reinvested in additional units of the issuer. Provided that appropriate designations are made by such issuer, net taxable capital gains and taxable dividends from taxable Canadian corporations treated as paid or payable by the issuer to the Trust will effectively retain their character in the hands of the Trust.

The Trust will be required to reduce the adjusted cost base of units of an issuer in the Portfolio that is a Canadian resident trust by any amount paid or payable by such issuer to the Trust except to the extent that the amount was included in calculating the income of the Trust or was the Trust’s share of the non-taxable portion of capital gains of such issuer, the taxable portion of which was designated in respect of the Trust. If the adjusted cost base to the Trust of such units becomes a negative amount at any time in a taxation year of the Trust, that negative amount will be deemed to be a capital gain realized by the Trust in that taxation year and the Trust’s adjusted cost base of such units will be increased by the amount of such deemed capital gain.

With respect to partnership units in the Portfolio of each issuer that is a limited partnership and that is not subject in a taxation year to the tax imposed under the SIFT Rules, the Trust will be required, in computing its income, to include or will be entitled to deduct, as the case may be, and subject to the “at-risk rules” and other provisions in the Tax Act, its share of net income, capital gains, losses and capital losses for tax purposes of the issuer allocated to the Trust for the fiscal year of the issuer ending in the Trust’s taxation year, whether or not a distribution is received in respect thereof from the issuer.

In general, the adjusted cost base at a particular time to the Trust of units of a limited partnership will be equal to the cost of such units to the Trust plus its share of income and capital gains of the limited partnership allocated to it for fiscal years of the limited partnership ending before the particular time less the total of its share of losses and capital losses of the limited partnership allocated to it for fiscal years of the partnership ending before the particular time and the Trust’s share of any distributions received from the limited partnership before the particular time. If the adjusted cost base to the Trust of units of a limited partnership is negative at the end of a fiscal year of

the partnership, that negative amount will be deemed to be a capital gain realized by the Trust at that time and the adjusted cost base of such units to the Trust will be increased by the amount of such deemed capital gain.

Under the SIFT Rules, each issuer in the Portfolio that is a SIFT trust or SIFT partnership as defined in the SIFT Rules (which will generally include income trusts (other than certain REITs) and certain partnerships, the units of which are listed or traded on a stock exchange or other public market) is subject to a tax in respect of its “non-portfolio earnings”, which include (i) income from non-portfolio properties (exceeding any losses for the taxation year from non-portfolio properties), other than taxable dividends, and (ii) taxable capital gains from dispositions of non-portfolio properties (exceeding allowable capital losses from dispositions of such properties). For this purpose, non-portfolio properties include: (i) certain Canadian real and resource properties, (ii) a property that the SIFT trust or SIFT partnership (or a non-arm’s length person or partnership) uses in the course of carrying on a business in Canada, and (iii) securities of a “subject entity” (other than a “portfolio investment entity”) if the SIFT trust or SIFT partnership holds securities of the subject entity that have a total fair market value that is greater than 10% of the subject entity’s equity value or if the SIFT trust or SIFT partnership holds securities of the subject entity which, together with all securities held of affiliates of the subject entity, have a total fair market value that is greater than 50% of the SIFT trust’s or SIFT partnership’s equity value. A “subject entity” includes corporations resident in Canada, trusts resident in Canada, and Canadian resident partnerships and a “portfolio investment entity” is an entity that does not hold any non-portfolio property. The SIFT Rules provide that non-portfolio earnings of a SIFT trust or SIFT partnership are taxed at a rate that is equivalent to the combined federal and provincial corporate tax rate. The SIFT Rules generally will not apply to taxation years of issuers that end before 2011 where units of the issuer were publicly traded before November 1, 2006. However, the deferral until 2011 will be lost and the SIFT Rules will apply immediately in any taxation year ending after 2006 if the issuer exceeds the normal growth limitations set out in the Normal Growth Guidelines, unless the excess arose from a prescribed transaction or if the issuer is a trust or partnership that was not a SIFT on October 31, 2006 but subsequently becomes a SIFT at any time thereafter. The Normal Growth Guidelines establish objective tests with respect to how much a SIFT is permitted to grow in the interim period from November 1, 2006 to the end of 2010 without becoming immediately subject to the SIFT Rules. Where the deferral is not available or is rescinded, the SIFT Rules generally apply to the 2007 and later taxation years of a SIFT trust or SIFT partnership. Under the SIFT Rules, non-portfolio earnings of a SIFT trust or SIFT partnership generally are taxed to unitholders as though they were a taxable dividend from a taxable Canadian corporation. Such dividend is an “eligible dividend” and should therefore benefit from the enhanced gross-up and dividend tax credit rules in the Tax Act.

The Trust will also be required to include in its income for each taxation year all interest on the debt securities it holds that accrues or is deemed to accrue to it to the end of the year, or becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing its income for a preceding taxation year. The SIFT Rules should have no impact on the character of interest paid or accrued on debt issued by a SIFT trust or SIFT partnership.

The Trust will be required to include in its income for a taxation year all dividends received in the year on shares of corporations.

In computing its income for tax purposes, the Trust may deduct reasonable administrative and other expenses incurred to earn income, including interest on Preferred Securities. The Trust may deduct rateably over a five-year period (subject to proration in any taxation year that is less than 365 days) the agents’ fees from the initial public offering and other offering expenses that are paid by the Trust and not reimbursed. Any non-capital losses incurred by the Trust may generally be carried forward or back and deducted in computing the taxable income of the Trust in accordance with the detailed rules and limitations contained in the Tax Act (including the October 31, 2003 Proposals discussed below).

The CRA has expressed a view that, in certain circumstances, the deductibility of interest on money borrowed to invest in an income fund may be reduced on a pro rata basis in respect of distributions from the income fund that are a return of capital which are not reinvested for an income earning purpose. Counsel are of the view that, while the ability to deduct interest depends on the facts, based on the jurisprudence, the Trust should be able to deduct interest on money borrowed to acquire Portfolio securities. Income of the Trust that is not distributed to Unitholders would be subject to non-refundable income tax in the Trust.

It is possible that, if the October 31, 2003 Proposals are implemented in the form currently proposed, the deduction of losses of the Trust in a particular taxation year could be limited. Under the October 31, 2003 Proposals, with effect for taxation years commencing after 2004, a taxpayer will have a loss for a taxation year from a particular source that is a business or property only if, in that year, it is reasonable to expect that the taxpayer will realize a cumulative profit from the business or property during the time that the taxpayer has carried on, and can reasonably be expected to carry on, the business or has held, and can reasonably be expected to hold, the property. The Department of Finance (Canada) has indicated that for this purpose “profit” is intended to mean profit determined in accordance with generally accepted commercial principles. The October 31, 2003 Proposals expressly provide that profit for this purpose will not include capital gains or capital losses, and do not provide for any carry forward of a loss that cannot be claimed as a result of the application of the proposed rules. The Manager believes that it is reasonable to expect that the Trust will realize a cumulative profit from its business and properties.

In determining the income of the Trust, gains or losses realized upon dispositions of Portfolio securities of the Trust will constitute capital gains or capital losses of the Trust in the year realized unless the Trust is considered to be trading or dealing in securities or otherwise carrying on a business of buying and selling securities or the Trust has acquired the securities in a transaction or transactions considered to be an adventure or concern in the nature of trade. The Manager has advised counsel that the Trust purchases the Portfolio securities with the objective of earning distributions and income thereon and takes the position that gains and losses realized on the disposition thereof are capital gains and capital losses. In addition, the Manager has advised counsel that the Trust has elected in accordance with subsection 39(4) of the Tax Act to have each of its “Canadian securities” (as defined in the Tax Act) treated as capital property. Such election is intended to ensure that gains or losses realized by the Trust on the disposition of Canadian securities, including most units of income trusts structured as mutual fund trusts, are taxed as capital gains or capital losses.

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

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

A distribution by the Trust of property distributed upon a redemption of Capital Units will be treated as a disposition by the Trust of the property so distributed for proceeds of disposition equal to its fair market value.

The Trust will be entitled for each taxation year throughout which it is a mutual fund trust to reduce (or receive a refund in respect of) its liability, if any, for tax on its net realized capital gains by an amount determined under the Tax Act based on the redemptions of Capital Units during the year (“capital gains refund”). In certain circumstances, the capital gains refund in a particular taxation year may not completely offset the tax liability of the Trust for such taxation year which may arise upon the sale of Portfolio securities in connection with redemptions of Capital Units.

The Manager has advised counsel that the Trust generally intends to deduct, in computing its income in each taxation year, the full amount available for deduction in each year. Therefore, provided the Trust makes distributions in each year of its net income for tax purposes and net realized capital gains as described under “Description of the Capital Units — Certain Provisions of the Capital Units — Distributions”, it will generally not be liable in such year for income tax under Part I of the Tax Act other than such tax on net realized capital gains that would be recoverable by it in such year by reason of the capital gains refund.

## **Taxation of Unitholders**

A Unitholder generally will be required to include in computing income for a taxation year the amount of the Trust's net income for the taxation year, including the taxable portion of the Trust's net realized capital gains, paid or payable, or deemed to be paid or payable, to the Unitholder in the taxation year whether received in cash, in additional Capital Units or otherwise. The non-taxable portion of the net realized capital gains of the Trust paid or payable to a Unitholder in a taxation year will not be included in computing the Unitholder's income for the year. Any amount in excess of the Unitholder's share of the net income and the net realized capital gains of the Trust for a taxation year that is paid or becomes payable to the Unitholder in such year generally will not be included in the Unitholder's income for the year but will reduce the adjusted cost base of the Unitholder's Capital Units. It is expected that at the Maturity Date the adjusted cost base of a Unitholder's Capital Units will be less than \$10.00 per Capital Unit. To the extent that the adjusted cost base of a Capital Unit becomes less than zero, the negative amount will be deemed to be a capital gain and the adjusted cost base of the Capital Unit to the Unitholder will then be increased by the amount of such deemed capital gain.

Provided that appropriate designations are made by the Trust, such portion of (i) the net realized taxable capital gains of the Trust; (ii) the foreign source income of the Trust and foreign taxes eligible for the foreign tax credit; and (iii) the taxable dividends received, or deemed to be received, by the Trust on shares of taxable Canadian corporations, as is paid or payable to a Unitholder will effectively retain its character and be treated as such in the hands of the Unitholder for purposes of the Tax Act. To the extent that amounts are designated as taxable dividends from taxable Canadian corporations, the normal gross-up and dividend tax credit rules will apply. The Manager has advised counsel that to the extent available under the Tax Act and CRA's administrative practice, the Trust will pass on to Unitholders in respect of eligible dividends the benefit of the enhanced gross-up and tax credit. Any loss of the Trust for purposes of the Tax Act cannot be allocated to, and cannot be treated as a loss of, a Unitholder.

A Unitholder who acquires additional Capital Units may become taxable on the Unitholder's share of any income and gains of the Trust that have accrued or been realized but have not been made payable at the time the additional Capital Units are acquired.

On the disposition or deemed disposition of Capital Units (whether on a sale, redemption or otherwise), the Unitholder will realize a capital gain (or capital loss) to the extent that the Unitholder's proceeds of disposition (other than any amount payable by the Trust which represents an amount that is otherwise required to be included in the Unitholder's income as described above) exceed (or are less than) the aggregate of the adjusted cost base of the Capital Units and any reasonable costs of disposition. Any additional Capital Units acquired by a Unitholder on a distribution satisfied by the issuance of additional Capital Units or on the reinvestment of distributions will generally have a cost equal to the amount distributed or reinvested, as the case may be.

For the purpose of determining the adjusted cost base to a Unitholder of the Capital Units, when a Capital Unit is acquired, the cost of the newly-acquired Capital Unit will be averaged with the adjusted cost base of all of the Capital Units owned by the Unitholder as capital property at that time.

Where the redemption price for Capital Units is paid by the transfer by the Trust of property of the Trust to the redeeming Unitholder, the proceeds of disposition to the Unitholder of the Capital Units will be equal to the fair market value of such property so transferred and the amount of any cash received less any gain realized by the Trust as a result of the transfer of property on the redemption of Capital Units which is made payable by the Trust to the redeeming Unitholder. The cost of any property distributed by the Trust to a Unitholder upon a redemption of Capital Units will be equal to the fair market value of that property at the time of the distribution.

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

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

## **Taxation of Securityholders**

A Securityholder generally will be required to include in computing income for a taxation year all interest on the Preferred Securities that is received or receivable by the Securityholder in that taxation year (depending upon the method regularly followed by the Securityholder in computing income), except to the extent that the interest was included in the Securityholder's income for a preceding taxation year.

Any amount paid by the Trust as a penalty or bonus because of the repayment of all or part of the principal amount of a Preferred Security before its maturity will be deemed to be received by the Securityholder as interest on the Preferred Security and will be required to be included in computing the Securityholder's income as described above to the extent that such amount can reasonably be considered to relate to, and does not exceed the value at the time of payment of, interest that, but for the repayment, would have been paid or payable by the Trust on the Preferred Security for a taxation year of the Trust ending after the repayment of such amount.

On a disposition or deemed disposition of a Preferred Security, including a redemption, payment on maturity, repurchase or purchase for cancellation, a Securityholder will generally be required to include in computing its income for the taxation year in which the disposition occurs the amount of interest that has accrued on the Preferred Security to that time except to the extent that such interest has otherwise been included in the Securityholder's income for the year or a preceding taxation year.

A disposition or deemed disposition of a Preferred Security by a Securityholder will generally result in the Securityholder realizing a capital gain (or capital loss) equal to the amount by which the proceeds of disposition, net of any amount included in the Securityholder's income as interest, exceed (or are less than) the aggregate of the Securityholder's adjusted cost base thereof and any reasonable costs of disposition. Any such capital gains or capital losses will be treated, for tax purposes, in the same manner as capital gains and capital losses arising from a disposition of Capital Units, which treatment is discussed above under "Canadian Federal Income Tax Considerations — Taxation of Unitholders".

In general terms, capital gains realized on the disposition of Preferred Securities may increase the Securityholder's liability for alternative maximum tax.

## **ELIGIBILITY FOR INVESTMENT**

Provided that the Trust qualifies as a "mutual fund trust" for the purposes of the Tax Act or the Capital Units are listed on a designated stock exchange (which includes the Toronto Stock Exchange), the Capital Units are qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts (collectively, "Registered Plans"). Provided that (i) the Trust qualifies as a mutual fund trust for the purposes of the Tax Act and the Capital Units are listed on a designated stock exchange in Canada (which includes the Toronto Stock Exchange) or (ii) the Preferred Securities are listed on a designated stock exchange (which includes the Toronto Stock Exchange), the Preferred Securities are qualified investments under the Tax Act for Registered Plans. Notwithstanding the foregoing, if the Capital Units or Preferred Securities are a "prohibited investment" (within the meaning of the Tax Act) for the purposes of a tax-free savings account, a holder will be subject to a penalty tax as set out in the Tax Act. The Capital Units and Preferred Securities will not be a "prohibited investment" for a tax-free savings account, provided the holder of such account deals at arm's length with the Trust for purposes of the Tax Act and does not have a "significant interest" (within the meaning of the Tax Act) in the Trust or in a corporation, partnership or trust with which the Trust does not deal at arm's length for purposes of the Tax Act.

## **RISK FACTORS**

An investment in Capital Units and Preferred Securities is subject to various risk factors, including the following risks which prospective investors should consider before purchasing any Capital Units or Preferred Securities:

## **No Assurances of Achieving Objectives**

There is no assurance that the Trust will be able to achieve its objectives, including being able to pay the interest on, and repay the original subscription price of, the Preferred Securities, or being able to pay the Anticipated Distributions. Furthermore, there can be no assurance that the Trust's NAV will be preserved or that distributions, if any, made to Unitholders will not be fully taxable.

The Trust expects to pay the interest on the Preferred Securities from distributions from the Portfolio securities. There is no guarantee that distributions sufficient to fund the interest on the Preferred Securities will be received by the Trust in respect of Portfolio securities. If sufficient distributions are not received by the Trust, interest payments on the Preferred Securities may require the liquidation of some or all of the Portfolio securities, and the ability of the Trust to achieve its objectives may be significantly reduced.

The Trust intends to make monthly cash distributions to Unitholders. However, such distributions may not be made if, after giving effect to the proposed distributions, the Combined Value would be less than 1.4 times the Repayment Price. In addition, distributions on the Capital Units are conditional upon the Trust being current in its obligation to pay interest on the Preferred Securities in accordance with the terms of the Trust Indenture. There is no assurance that the Portfolio securities will pay distributions in an amount which will enable the Trust to pay any distributions on the Capital Units.

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 no distributions (in respect of Capital Units) or interest (in respect of Preferred Securities) being paid in any given period.

## **Leverage**

Unitholders will be subject to a form of leverage such that any capital appreciation in the Capital Units purchased with the net proceeds from the issue of both the Preferred Securities and the Capital Units offered hereby after repaying the Preferred Securities and all accrued and unpaid interest thereon, the Loan Facility and any other indebtedness of the Trust, and any other expenses and liabilities of the Trust will be for the benefit of the Unitholders. In the event of a decrease in the value of the Portfolio, this leverage will work to the disadvantage of Unitholders, with the result that any net capital loss incurred by the Trust on its investment in the Portfolio will effectively first be for the account of Unitholders. Accordingly, any decrease in the value of the Portfolio will result in a greater proportionate decrease in the value of the Capital Units. If, at the Termination Date, the total assets of the Trust are less than or equal to the amount of the aggregate of all liabilities of the Trust (including the aggregate original subscription price of the Preferred Securities and all accrued and unpaid interest thereon and other indebtedness of the Trust), the Capital Units will have no value. There is no assurance that there will be any capital appreciation on the Capital Units.

## **Fluctuations in Net Asset Value**

The NAV per Capital Unit and the funds available for distributions will vary according to, among other things, distributions paid on the Preferred Securities and the Capital Units, the value of the securities in the Portfolio, the performance of the equity market generally, and interest rates. Fluctuations in the market values of the securities in the Portfolio may occur for a number of reasons beyond the control of the Manager and the Investment Advisor. See "Valuation".

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

## **General Economic Conditions**

The value of the Trust's investments and the income generated therefrom, are subject to changes in general economic conditions including interest rates and in industry specific conditions including the performance of

competitors and demand for specific products and services, and may be adversely affected by a change in any of such conditions.

### **Commodity Price Fluctuation**

The operations and financial condition of resource-based issuers, including oil and gas royalty trusts, and the amount of distributions paid on their units, is dependent in part on commodity prices applicable to the commodities sold by such issuers. Prices for commodities will vary and are determined by supply and demand factors, including weather, general economic conditions and political conditions. A decline in commodity prices could have an adverse effect on the operations and financial conditions of such issuers and the amount of distributions paid on their units. In addition, certain commodity prices are based on a U.S. dollar market price. Accordingly, an increase in the value of the Canadian dollar against the U.S. dollar could reduce the amount of distributions paid on the units of such resource-based issuers.

### **Real Estate Investments**

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

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

### **Changes in Portfolio Composition**

The investments included in the Portfolio will change from time to time. The returns of the Portfolio may change as its composition changes.

### **Reliance on the Investment Advisor**

The Investment Advisor will advise the Trust in a manner consistent with the investment objectives, strategy and criteria of the Trust and subject to the investment restrictions. Although the employees of the Investment Advisor who will be primarily responsible for the management of the Trust's Portfolio have extensive experience in managing investment portfolios, there is no certainty that such individuals will continue to be employees of the Investment Advisor throughout the term of the Trust.

### **Use of Leverage**

It is anticipated that the Trust may at times incur indebtedness under the Loan Facility in an amount up to an amount not exceeding \$4 million. The indebtedness will be secured by the Portfolio. There can be no assurance that such a strategy will enhance returns and in fact the strategy may reduce returns (both distributions and capital). If the securities in the Portfolio suffer a decrease in value, the leverage component will cause a decrease in NAV in excess of that which would otherwise be experienced. In the event that the Loan Facility is called by the Lender, the Trust may be required to liquidate the Portfolio to repay the indebtedness at a time when the market for the securities in the Portfolio may be depressed, thereby forcing the Trust to incur losses.

### **Illiquid Securities**

There is no assurance that an adequate market will exist for Portfolio securities acquired by the Trust. Portfolio securities purchased on a private placement basis or issued by issuers that are not reporting issuers in all provinces may be subject to hold periods under certain provincial securities legislation. The Trust cannot predict



whether the Portfolio securities held by it will trade at a discount to, a premium to, or at their respective net asset values.

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

### **Installment Receipts**

The Trust may purchase certain Portfolio securities as installment receipts representing ownership interests in trust units, the original subscription price of which is payable on an installment basis. The Trust may be required to pay subsequent installments despite a decline in the value of the securities of an issuer in which the Trust invests.

### **Taxation of Underlying Investments**

The SIFT Rules impose a tax on certain income (other than taxable dividends) earned by most publicly traded trusts and partnerships (other than certain REITs) and treat distributions or allocations of such income to investors as a dividend from a taxable Canadian corporation. The SIFT Rules do not change the tax treatment of distributions that are paid as a return of capital by SIFT trusts. The SIFT Rules are effective for a SIFT's taxation year ending after 2006, except that the application is generally delayed until the SIFT's taxation year ending after 2010 if the SIFT would have been a SIFT on October 31, 2006, had the SIFT Rules been enacted on that date. However, the deferral will be lost and the SIFT Rules will apply immediately in any taxation year ending after 2006 if the SIFT exceeds the normal growth limitations set out in the Normal Growth Guidelines, unless the excess arose from a prescribed transaction or if a trust or partnership that would not have been a SIFT on October 31, 2006 subsequently becomes a SIFT at any time thereafter. The Normal Growth Guidelines establish objective tests with respect to how much a SIFT is permitted to grow in the interim period from November 1, 2006 to the end of 2010 without becoming immediately subject to the SIFT Rules. The Trust was established to provide investors with exposure to the Portfolio that includes securities of income trusts (and may include securities of partnerships) to which the SIFT Rules may apply. The SIFT Rules have had and may continue to have a negative impact on the value of income trusts units held by the Trust. As a result of these changes, it is expected that many SIFT trusts and SIFT partnerships will convert to a corporate structure in the coming months. Such conversions could affect the return on investment in respect of the SIFT trusts and SIFT partnerships held through an underlying fund in which the Trust invests. In addition, if an underlying fund in which the Trust invests holds interests in SIFT trusts or SIFT partnerships that have become subject to this tax, the amount available for distribution to the Trust would be reduced under the SIFT Rules. Further, no assurance can be given that Canadian federal income tax law respecting the taxation of income trusts and other flow-through entities will not be further changed in a manner that adversely affects the Trust and its Unitholders.

### **Taxation of the Trust**

Under the SIFT Rules a Canadian resident trust (other than a "real estate investment trust" as defined in the SIFT Rules) or partnership the units of which are listed or traded on a stock exchange or other public market and that hold one or more "non-portfolio properties" (as defined in the SIFT Rules) is a SIFT trust or SIFT partnership, as the case may be. If the SIFT Rules become applicable to the Trust, the Trust will be subject to a tax on certain income (other than taxable dividends), commencing in the taxation year in which it becomes a SIFT, notwithstanding that the income is distributed to Unitholders. Unitholders will be taxed on distributions of such income in a manner similar to dividends from taxable Canadian Corporations. The deemed dividend is eligible for the enhanced dividend tax credit if paid or allocated to a resident of Canada. The Manager has advised counsel that the Trust has not held and will not hold investments that would result in the Trust becoming subject to the SIFT Rules in any taxation year. If the Trust were to become a SIFT trust within the meaning of the SIFT Rules, the income tax considerations discussed under the heading "Canadian Federal Income Tax Considerations" could be materially and adversely different in certain respects. See "Canadian Federal Income Tax Considerations".

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

The CRA has expressed a view that, in certain circumstances, the deductibility of interest on money borrowed to invest in an income fund may be reduced on a pro rata basis in respect of distributions from the income fund that are a return of capital and which are not reinvested for an income earning purpose. Counsel are of the view that, while the ability to deduct interest depends on the facts, based on the jurisprudence, the CRA's view should not affect the Trust's ability to deduct interest on money borrowed to acquire units of income funds included in the Portfolio securities. In addition, the Manager will take steps to ensure that money borrowed by the Trust is used to purchase units of income funds which are less likely to make return of capital distributions. If the CRA's view were to apply to the Trust, part of the interest payable by the Trust in connection with money borrowed to acquire certain Portfolio securities could be non-deductible, increasing the net income of the Trust for tax purposes and the taxable component of distributions to Unitholders. Income of the Trust which is not distributed to Unitholders would be subject to non-refundable income tax in the Trust.

On October 31, 2003, the Department of Finance (Canada) released for public comment the October 31, 2003 Proposals. In general, the October 31, 2003 Proposals may deny losses in respect of a business or property if in the year it is not reasonable to expect that the taxpayer will realize a cumulative profit from that business or property for the period in which the taxpayer has carried on, and can reasonably be expected to carry on, that business or has held and can reasonably be expected to hold, that property. Profit, for this purposes, is determined without reference to capital gains or capital losses. The Manager believes that it is reasonable to expect that the Trust will realize a cumulative profit from each of its properties. If the October 31, 2003 Proposals applied to the Trust, losses in respect of property of the Trust could be denied, which may reduce after-tax returns to Unitholders and Securityholders as a result. Income of the Trust that is not distributed to Unitholders would be subject to non-refundable income tax in the Trust. The Trust will monitor its activities in this respect, as well as the October 31, 2003 Proposals. In the Canadian federal budget tabled in the House of Commons on February 23, 2005 by the Minister of Finance (Canada), it was announced that the Department of Finance (Canada) would replace the October 31, 2003 Proposals with a more modest legislative initiative to be released for public comment. No such proposal has been released to date.

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

Currently, a trust will not be considered to be a mutual fund trust if it is established or maintained primarily for the benefit of non-residents of Canada, including for this purpose partnerships with one or more non-resident members, unless all or substantially all of its property is property other than "taxable Canadian property" as defined in the Tax Act. On September 16, 2004, the Minister of Finance (Canada) released draft amendments to the Tax Act. Under the draft amendments, a trust would lose its status as a mutual fund trust if, at any time after 2004, the aggregate fair market value of all units issued by the trust held by one or more non-residents is more than 50% of the aggregate fair market value of all the units issued by the trust where more than 10% (based on fair market value) of the trust's property is taxable Canadian property or certain other types of property. If the draft amendments are enacted as proposed, and if, at any time, more than 50% of the aggregate fair market value of Capital Units of the Trust were held by non-residents, the Trust would thereafter cease to be a mutual fund trust. The draft amendments do not currently provide any means of rectifying a loss of mutual fund trust status. On December 6, 2004, the Minister of Finance (Canada) tabled a Notice of Ways and Means Motion which did not include these proposed changes. The Department of Finance (Canada) has suspended implementation of these proposed changes, pending further consultation with interested parties.

## **Risks Specific to the Structure of the Trust**

Distributions on Portfolio securities will be used to pay the expenses and other liabilities of the Trust and the Preferred Security Interest Amount. The net proceeds from the sale of the Preferred Securities were used by the Trust to purchase Portfolio securities. To the extent that distributions made on the additional Portfolio securities purchased with the net proceeds of the Preferred Securities exceed the aggregate Preferred Security Interest Amount and quarterly expenses of the Trust, additional distributions may be made on the Capital Units. However, there can be no assurance that the distributions made on such investments in Portfolio securities will exceed or equal the aggregate Preferred Security Interest Amount and quarterly expenses of the Trust. If such distributions are less than the aggregate Preferred Security Interest Amount and quarterly expenses of the Trust, the distributions that could otherwise be made on the Capital Units if the Trust had not issued Preferred Securities would be reduced, possibly to zero.

In addition to periodic interest on the Preferred Securities, the Repayment Price of the Preferred Securities must be repaid on the Maturity Date. The amount to be repaid depends on the aggregate original subscription price of the Preferred Securities then outstanding, together with any accrued and unpaid interest thereon. A reduction in the total assets of the Trust does not change the amount that must be paid on account of the Preferred Securities. Due to this required repayment of the Preferred Securities, decreases in the total assets of the Trust will cause the value of a Capital Unit to decrease to a proportionately greater extent, as compared to the situation where the Trust did not issue Preferred Securities. There can be no assurance that the total assets of the Trust will not decrease.

There is a risk that the Preferred Securities may be repaid by the Trust prior to the Maturity Date, pursuant to the exercise of the Call Right or otherwise. In such event, the total return to a Securityholder would be less than the total return if Preferred Securities were held until the Maturity Date.

## **Status of Preferred Securities**

The Preferred Securities are subordinate to all indebtedness of the Trust ranking senior to the Preferred Securities, including indebtedness to trade creditors of the Trust. The Preferred Securities are direct unsecured debt obligations issued by the Trust. See “Description of the Units — Certain Provisions of the Preferred Securities — Subordination”.

## **Change or Withdrawal of Rating on the Preferred Securities**

There can be no assurance that the rating on the Preferred Securities of Pfd-4 by DBRS will remain in effect or not be revised. If such rating is withdrawn or revised, there may be an adverse effect on the market price of the Preferred Securities.

## **Securities Lending**

The Trust may engage in securities lending as described under “Investments 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. In addition, the Trust will bear the risk of loss of any investment of cash collateral.

## **Marketability of Capital Units and Preferred Securities**

Although the Capital Units and Preferred Securities are currently listed on the TSX, there can be no assurance that an active public market will continue indefinitely.

## **Potential Conflicts of Interest**

The Investment Advisor and its directors and officers and its affiliates and associates may engage in the promotion, management or investment management of one or more funds or trusts which invest primarily in securities similar to the Portfolio securities.

Although none of the directors or officers of the Investment Advisor will devote his or her full time to the business and affairs of the Trust, each will devote as much time as is necessary to provide portfolio advice to the Trust. See “Conflicts of Interest”.

### **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 Capital Units and Preferred Securities and certain restrictions imposed on mutual funds under Canadian securities laws, including National Instrument 81-102, do not apply to the Trust.

### **Changes in Legislation**

There can be no assurance that income tax, securities and other laws will not be changed or further changed in a manner which adversely affects the distributions received by the Trust or by the Unitholders or Securityholders. There can be no assurance that Canadian federal income tax laws and the administrative policies and assessing practices of the CRA respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects Unitholders. If the Trust ceases to qualify as a “mutual fund trust” under the Tax Act, the income tax considerations described under the heading “Canadian Federal Income Tax Considerations” would be materially and adversely different in certain respects.

### **Deductibility of Interest and Expenses**

On October 31, 2003, the Department of Finance (Canada) released for public comment the October 31, 2003 Proposals. In general, the October 31, 2003 Proposals may deny losses in respect of a business or property if in the year it is not reasonable to expect that the taxpayer will realize a cumulative profit from that business or property for the period in which the taxpayer has carried on, and can reasonably be expected to carry on, that business or has held and can reasonably be expected to hold, that property. The Manager believes that it is reasonable to expect that the Trust will realize a cumulative profit from its business and properties.

If the October 31, 2003 Proposals applied to the Trust, losses in respect of a business or property of the Trust could be denied, which may reduce after-tax returns to Unitholders and Securityholders as a result. The Trust will monitor its activities in this respect, as well as the October 31, 2003 Proposals. In the Canadian federal budget tabled in the House of Commons on February 23, 2005 by the Minister of Finance (Canada), it was announced that the Department of Finance (Canada) would replace the October 31, 2003 Proposals with a more modest legislative initiative to be released for public comment. No such proposal has been released to date.

### **Equity Risk**

The Trust may invest in equities, which are affected by stock market movements. When the economy is strong, the outlook for many companies will be good, and share prices will generally rise, as will the value of funds that own these shares. On the other hand, share prices usually decline in times of general economic or industry downturn. Equity securities of certain companies or companies within a particular industry sector may fluctuate differently than the overall stock market because of changes in the outlook for those individual companies or the particular industry.

### **Small and Medium-Sized Companies**

Investments in small and medium-sized companies may be more volatile than investments in larger companies, as small and medium-sized companies generally experience higher growth and failure rates. The trading volume of these securities is normally lower than that of larger companies. Such securities may be less liquid than others and could make it difficult to purchase or sell a security at a time or price desired. Changes in the demand of these securities generally have a disproportionate effect on their market price, tending to make prices rise more in response to buying demand and fall more in response to selling pressure.

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

The Investment Advisor and the Manager will receive the fees described under “Fees and Expenses — Fees and Other Expenses” for their respective services to the Trust and will be reimbursed by the Trust for all reasonable expenses incurred in connection with the operation and administration of the Trust.

## **MATERIAL CONTRACTS**

The following contracts can reasonably be regarded as material to purchasers of Preferred Securities and Capital Units:

- (a) the amended and restated Declaration of Trust described under “The Trust” and “Declaration of Trust and Unitholder Matters”;
- (b) the Trust Indenture described under “Description of the Units — Certain Provisions of the Preferred Securities — General”;
- (c) the amended and restated Management Agreement described under “Management of the Trust — The Management Agreement”;
- (d) the amended and restated Investment Advisory Agreement described under “Management of the Trust — The Investment Advisory Agreement”;

Copies of the agreements referred to in (a) to (d) are available at [www.sedar.com](http://www.sedar.com).

## **AUDITORS**

The auditors of the Fund are Deloitte & Touche LLP, Suite 800, 100 Queen Street, Ottawa, Ontario.

CIBC Mellon Trust Global Securities Services Company is the custodian of the Trust’s assets pursuant to the Custodian Agreement dated March 16, 2005. The address of the custodian is 320 Bay Street, P.O. Box 1, Toronto, Ontario, M5H 4A6. The custodian may employ sub-custodians as considered appropriate in the circumstances.

## **INDENTURE TRUSTEE**

CIBC Mellon Trust Company (now known as BNY Trust Company of Canada) was appointed the Indenture Trustee pursuant to the Trust Indenture.

## **REGISTRAR AND TRANSFER AGENT**

Pursuant to a registrar and transfer agency agreement signed on February 28, 2005, Computershare Investor Services Inc. was appointed the registrar and transfer agent for the Capital Units. Computershare Investor Services Inc. is located at 100 University Avenue, Toronto, Ontario, M5J 2Y1. The register of Unitholders is kept in Toronto, Ontario.

## **BROOKFIELD SOUNDVEST SPLIT TRUST**

Additional information about the Trust is available in the Trust's management reports of Trust performance and financial statements.

You may obtain a copy of these documents at no cost by calling 1-888-777-4019, or from your dealer or by email at [inquiries@brookfieldsoundvest.com](mailto:inquiries@brookfieldsoundvest.com).

The financial statements, management reports and other information about the Trust, such as information circulars and material contracts, are also available at [www.brookfieldsoundvest.com](http://www.brookfieldsoundvest.com) or at [www.sedar.com](http://www.sedar.com).

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