



CANADIAN BANC CORP.

Preferred Shares

Class A Shares

ANNUAL INFORMATION FORM

February 22, 2017

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NAME, FORMATION AND HISTORY OF THE COMPANY

Canadian Banc Corp. (the “Company”) is a mutual fund corporation incorporated under the laws of Ontario by articles of incorporation dated May 25, 2005, as amended June 28, 2005, April 23, 2009, December 22, 2011, January 17, 2012 and January 20, 2012. The Company was initially incorporated under the name “Prime Rate Plus Corp.” On April 23, 2009 the Company changed its name to “Canadian Banc Recovery Corp.” and on January 20, 2012 the Company adopted its current name. The principal office address of the Company is 77 King Street West, Suite 4500, Toronto, Ontario M5K 1K7.

Quadravest Capital Management Inc. (“Quadravest”) is the manager and investment manager for the Company. Quadravest is the manager and investment manager of 11 other public mutual fund corporations and one public mutual fund trust with total assets under management of approximately \$2.1 billion. The principal office address of Quadravest is at 77 King Street West, Suite 4500, Toronto, Ontario M5K 1K7, and its website address is www.quadravest.com.

On July 15, 2005 and July 29, 2005, the Company completed its initial public offering of 11,525,000 Preferred Shares and 11,525,000 Class A Shares pursuant to a prospectus dated June 28, 2005 (the “Initial Prospectus”). Preferred Shares and the Class A Shares (“Shares”) are issued only on the basis that an equal number of Preferred Shares and Class A Shares (together, a “Unit”) will be issued and outstanding at all material times. The Preferred Shares and the Class A Shares are listed on the Toronto Stock Exchange (“TSX”) under the symbols BK.PR.A. and BK, respectively. Prior to May 7, 2009, the Shares traded under the symbols PPL.PR.A and PPL, respectively.

On November 3, 2011, at a special meeting of the holders of the Preferred Shares and Class A Shares (“Shareholders”), the Shareholders approved a further amendment to the articles of incorporation of the Company to, among other things:

- (a) extend the Termination Date (as defined below) of the Company from December 1, 2012 to, initially, December 1, 2018 and to provide Shareholders with a special retraction right in connection with such extension which allowed Shareholders to tender one or both classes of Shares and receive a retraction price based on the December 31, 2011 net asset value per Unit;
- (b) require the Company to be terminated prior to any scheduled Termination Date if the Preferred Shares or the Class A Shares are delisted on the TSX or if the net asset value of the Company declines to less than \$5,000,000;
- (c) provide for an additional extension of the term of the Company for a five year period beginning on December 1, 2018 if the board of directors of the Company (the “Board of Directors”) so determines, and for further extensions for additional terms of five years each thereafter, and to provide Shareholders with a “Recurring Special Retraction Right” (as defined below) in connection with each such extension; and
- (d) amend the dividend entitlement of the Preferred Shares, effective December 1, 2018, if the term of the Company is then extended, so as to provide the Company with the right to establish the rate of cumulative preferential monthly dividends to be paid on the Preferred Shares for the five year renewal period commencing December 1, 2018, and in respect of any subsequent five year renewal term.

In connection with the December 2011 special retraction right described in (a) above, more Class A Shares were tendered for retraction than Preferred Shares. Since the Company must have an equal

number of Preferred Shares and Class A Shares outstanding, the Company subdivided the Class A Shares effective January 17, 2012 such that each holder of a Class A Share on such date had such Share subdivided into 1.180459885 Class A Shares, which resulted in the number of outstanding Class A Shares after such share subdivision matching the number of Preferred Shares then outstanding. In addition, the monthly targeted dividend on the Class A Shares, initially targeted to be at a rate per annum equal to the Prime Rate plus 2.0%, with a minimum targeted annual rate of 5.0% and a maximum annual rate of 10.0% (based upon the original issue price of the Class A Shares) was adjusted to be at a rate per annum equal to the prime rate plus 1.25% with a minimum targeted annual rate of 4.25% and a maximum targeted annual rate of 8.50% (based on the original issue price of the Class A Shares), in order to maintain the same effective dividend rate post subdivision.

The Company issued 6,772,452 warrants (the “2012 Warrants”) to subscribe for up to 2,257,484 Units at a price of \$20.00 per Unit (three 2012 Warrants being required to acquire one Unit) to holders of Class A Shares of record on May 4, 2012, pursuant to a short form prospectus dated April 18, 2012. The 2012 Warrants expired on April 30, 2013, and a total of 2,196 2012 Warrants were exercised, resulting in 731 Units being issued.

On March 7, 2014, the Company issued 837,350 Preferred Shares and 837,350 Class A Shares pursuant to a short form prospectus dated February 27, 2014.

The Company on August 25, 2014 issued 6,834,486 rights to subscribe for up to 1,139,081 Preferred Shares and 1,139,081 Class A Shares pursuant to a rights offering circular dated August 6, 2014. Such rights expired on October 6, 2014 and 89,369 Preferred Shares and 89,369 Class A Shares were issued as a result of the exercise thereof.

On April 17, 2015, the Company issued 1,320,000 Preferred Shares and 1,320,000 Class A Shares pursuant to a short form prospectus dated April 13, 2015.

On December 12, 2016, the Company declared a special capital gains cash dividend of \$0.50 per Class A Share and a special capital gains stock dividend of 0.05 per Class A Share for each Class A Share outstanding. The special dividends were payable on January 9, 2017, and resulted in an aggregate of 393,602 Class A Shares being issued to Class A Shareholders on such date. Also on January 9, 2017, the Company issued 393,602 Preferred Shares pursuant to a short form prospectus dated January 4, 2017.

Investment Objectives

The Company was created to provide investors with an opportunity to invest in the Canadian banking sector, which is a sector QuadraVest believes offers an attractive dividend yield, has shown solid earnings growth and has a strong history of capital appreciation. The Preferred Shares and the Class A Shares which the Company originally issued to the public were each floating rate securities. The distribution amounts payable on these securities previously varied with the prevailing prime rate in Canada (the “Prime Rate”). Effective September 17, 2013, the Company announced a new distribution policy as discussed below.

The Company’s investment objectives are (i) to provide holders of Preferred Shares with cumulative preferential floating rate monthly cash dividends at a rate per annum equal to the Prime Rate plus 0.75%, with a minimum annual rate of 5.0% and a maximum annual rate of 7.0%; (ii) to provide holders of Class A Shares with regular monthly cash distributions; and (iii) to return the original issue price of \$10.00 and \$15.00 to holders of Preferred Shares and Class A Shares, respectively, at the time of the redemption of such Shares on December 1, 2018 or such other date as the Company may terminate (the “Termination Date”). The Company’s current distribution policy with respect to the Class A Shares is to

pay monthly distributions targeted to be at an annualized rate of 10% based upon the volume-weighted average trading price of the Class A Shares on the TSX for the last three trading days of the preceding month.

The assets of the Company are invested in an actively managed portfolio of common shares (the “Portfolio”) which primarily includes shares of the following publicly traded Canadian banks (the “Portfolio Companies”), each of whose shares will generally represent no less than 5% and no more than 20% of the net asset value of the Company:

Bank of Montreal	National Bank of Canada
The Bank of Nova Scotia	Royal Bank of Canada
Canadian Imperial Bank of Commerce	The Toronto-Dominion Bank

Up to 20% of the net asset value of the Company may be invested in equity securities of Canadian or foreign financial services corporations, other than the Portfolio Companies. The Company may from time to time, based on QuadraVest’s assessment of market conditions, liquidity considerations, maintenance of the rating on the Preferred Shares and other considerations, hold short term debt instruments issued by the government of Canada or a province or short term commercial paper issued by Canadian corporations with a rating of at least R-1 (mid) by DBRS Limited (“DBRS”) or the equivalent from another rating organization selected by QuadraVest (“Permitted Debt Securities”).

To supplement the dividends earned on the Portfolio and to reduce risk, the Company will from time to time write covered call options in respect of all or part of the Portfolio. The individual securities within the Portfolio which are subject to call options and the terms of such options will vary from time to time based on QuadraVest’s assessment of the market. The Company may also write cash covered put options or purchase call options with the effect of closing out existing call options written by the Company and may also purchase put options in order to protect the Company from declines in the market prices of the securities in the Portfolio. The Company may enter into trades to close out positions in such permitted derivatives. The Company may also use derivatives for hedging purposes or otherwise as permitted under National Instrument 81-102 *Investment Funds* (“NI 81-102”). Such permitted derivatives may include exchange traded options, futures contracts or options on futures (subject to QuadraVest obtaining any necessary registrations under the *Commodity Futures Act* (Ontario)), over-the-counter options and forward contracts.

In addition to the restrictions and limitations on the Company’s investing activities discussed under “*Investment Restrictions*” below, the Company will not invest in or hold (i) a share of, an interest in, or a debt of a non-resident entity, an interest in or a right or option to acquire such a share, interest or debt or an interest in a partnership which holds such a share, interest or debt that would cause the Company (or partnership) to include amounts in income under section 94.1 of the *Income Tax Act* (Canada) (the “Tax Act”), (ii) securities of a non-resident trust other than an “exempt foreign trust” as defined in subsection 94(1) of the Tax Act, or (iii) an interest in a trust that would require the Company to report income in connection with such interest pursuant to the rules in section 94.2 of the Tax Act.

INVESTMENT RESTRICTIONS

The Company is subject to, and its investment portfolio is managed in accordance with, certain standard restrictions and practices prescribed by securities legislation of each of the provinces of Canada, including NI 81-102, and any deviation from these restrictions and practices requires the prior approval of the Canadian Securities Administrators of each of the provinces of Canada. These restrictions and practices are designed, in part, to ensure that the Company’s investments are diversified and relatively liquid and to ensure the proper administration of the Company. The Company has been exempted,

pursuant to a decision document of the Canadian Securities Administrators dated June 29, 2005, from the requirements of section 2.1(1) of NI 81-102 (among other provisions), so as to permit the Company to invest in the shares of the Portfolio Companies on the basis set forth above.

The Company is also subject to certain additional investment restrictions or criteria that, among other things, limit the equity securities and other securities the Company may acquire in the Portfolio. The Company's investment restrictions and criteria may not be changed without the approval of the holders of the Preferred Shares and the Class A Shares by a two-thirds majority vote at a meeting called for such purpose. See "*Description of the Shares of the Company – Acts Requiring Shareholder Approval*". In this regard, the Company may not:

- (a) purchase equity securities of an issuer unless (i) such securities are common shares issued by a Portfolio Company or are securities convertible into or exchangeable for or that carry the right to purchase such common shares, or the purchase is permitted under clause (ii), and (ii) after such purchase, no more than 20% of the net asset value of the Company is invested in equity securities of issuers other than the Portfolio Companies;
- (b) purchase debt securities unless such securities are Permitted Debt Securities;
- (c) write a call option in respect of any security unless such security is held by the Company at the time the option is written;
- (d) dispose of a security included in the Portfolio that is subject to a call option written by the Company unless that option has either been closed out or has expired;
- (e) enter into any arrangement (including the acquisition of securities for the Portfolio and the writing of covered call options in respect thereof) where the main reason for entering into the arrangement is to enable the Company to receive a dividend on such securities in circumstances where, under the arrangement, someone other than the Company bears the risk of loss or enjoys the opportunity for gain or profit with respect to such securities in any material respect; and
- (f) acquire or continue to hold any security that is a "specified property" as defined in subsection 18(1) of the legislative proposals to amend the Tax Act released by the Minister of Finance (Canada) on September 16, 2004 if the total of all amounts each of which is the fair market value of a specified property would exceed 10% of the total of all amounts each of which is the fair market value of a property of the Company.

For the purposes of the restrictions set forth in paragraphs (a), (c) and (d) above, any indirect holding of securities of a Portfolio Company is aggregated with the Company's direct holdings and considered to be subject to the same restrictions.

DESCRIPTION OF THE SHARES OF THE COMPANY

The Company is authorized to issue an unlimited number of Preferred Shares and Class A Shares and 1,000 Class B Shares, of which as at the date of this Annual Information Form there are issued and outstanding 1,000 Class B Shares, 8,265,657 Preferred Shares and 8,265,657 Class A Shares. The attributes of the Preferred Shares and the Class A Shares are described below under "*Description of the Shares of the Company – Certain Provisions of the Preferred Shares*" and "*Description of the Shares of the Company – Certain Provisions of the Class A Shares*", respectively. The Company is permitted to issue additional Preferred Shares and Class A Shares under the provisions of NI 81-102 so long as such

Preferred Shares and Class A Shares are issued at a price (a) which, so far as is reasonably practicable, does not cause dilution of the net asset value per Preferred Share or per Class A Share, as the case may be, at the time such Shares are issued, and (b) which is at least equal to the net asset value per Preferred Share or per Class A Share most recently calculated prior to the pricing of the offering of such Shares. The Company will not issue additional Class B Shares.

Class B Shares

The holders of Class B Shares are not entitled to receive dividends. The holders of the Class B Shares are entitled to one vote per share. The Class B Shares are retractable at a price of \$1.00 per share and have a nominal liquidation entitlement of \$1.00 per share which will be paid to the holders of the Preferred Shares and the Class A Shares on the Termination Date. The Class B Shares rank subsequent to the Preferred Shares and prior to the Class A Shares with respect to such nominal liquidation entitlement on the dissolution, liquidation or winding-up of the Company.

Certain Provisions of the Preferred Shares

Dividends

The Company will pay, as and when declared by the Board of Directors, a cumulative preferential floating rate monthly dividend at an annual rate equivalent to interest at the Prime Rate plus 0.75% from time to time to holders of Preferred Shares of record on the last day of each month (each a “Dividend Record Date”). Such rate will be reset each month based on the Prime Rate on the 15th day of each month or, if such day is not a business day, the next following business day (the “Reset Date”). Regardless of the Prime Rate, however, the minimum rate per annum at which dividends will be paid on the Preferred Shares is 5.0% and the maximum rate is 7.0% . Based on market conditions and the composition of the Portfolio, it is anticipated that such dividends will consist solely of Ordinary Dividends (as defined under “*Canadian Federal Income Tax Considerations – Tax Treatment of the Company*” below).

From and after December 1, 2018, assuming the Termination Date of the Company is then extended beyond December 1, 2018, and in respect of each five year extension, if any, thereafter, the Company shall determine the rate of cumulative preferential monthly dividends to be paid on the Preferred Shares for the ensuing five year period. Such determination shall be made no later than September 30 (or the first business day thereafter, if September 30 is not a business day) of the year in which the otherwise scheduled Termination Date is extended (the “Extension Year”); failing which the then-applicable dividend rate shall continue to apply. The dividend rate will be announced by press release (which press release will also set out a Shareholder’s entitlement to the Recurring Special Retraction Right in connection with the extension of the term of the Company).

Dividends that are declared by the Board of Directors will be payable to holders of Preferred Shares of record at 5:00 p.m. (local time in Toronto, Ontario) on the applicable Dividend Record Date with payment being made within 15 days thereafter.

Regular monthly dividends were paid to holders of the Preferred Shares each month during the Company’s last fiscal year ended November 30, 2016.

Rating

The Preferred Shares have been rated Pfd-3 (high) by DBRS as at August 26, 2016. Each of the rating categories used by DBRS for preferred shares is denoted by the subcategories “high” and “low”. The absence of either a “high” or “low” designation indicates the rating is in the middle of the category.

According to DBRS, Preferred shares rated Pfd-3 are of adequate credit quality. While protection of dividends and principal is still considered acceptable, the issuing entity is more susceptible to adverse changes in financial and economic conditions, and there may be other adverse conditions present which detract from debt protection. Pfd-3 ratings generally correspond with companies whose senior bonds are rated in the higher end of the BBB category. Credit ratings are intended to provide investors with an independent assessment of the credit quality of an issue or issuer of securities and do not speak to the suitability of particular securities for any particular investor. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by DBRS. There is 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 entirely by a rating agency at any time if in its judgment circumstances so warrant. Customary fee payments were made, and may reasonably be made, by the Company to DBRS in connection with the rating assigned to the Preferred Shares. The Company did not make any payments to DBRS in respect of any other service provided to the Company by DBRS during the last two years.

Retraction Privileges

Preferred Shares may be surrendered at any time for retraction to Computershare Investor Services Inc. (“Computershare”), the Company’s registrar and transfer agent, but will be retracted only as of the last business day of each month (a “Retraction Date”). Preferred Shares surrendered for retraction by a Shareholder at least 20 business days prior to a Retraction Date will be retracted and the holder will receive payment on or before the 15th business day following such Retraction Date (the “Retraction Payment Date”). If a holder of Preferred Shares makes such surrender after 5:00 p.m. (local time in Toronto, Ontario) on the 20th business day immediately preceding a Retraction Date, the Preferred Shares will be retracted on the Retraction Date in the following month and the holder will receive payment for the retracted Shares as of the Retraction Payment Date in respect of the Retraction Date in the following month.

Except as noted below, holders of Preferred Shares whose Preferred Shares are surrendered for retraction will be entitled to receive a price per Preferred Share (the “Preferred Share Retraction Price”) equal to the lesser of (i) \$10.00 and (ii) 96% of the net asset value per Unit determined as of the Retraction Date, less the cost to the Company of the purchase of a Class A Share in the market for cancellation and less any other applicable costs. For this purpose, the cost of the purchase of a Class A Share includes the purchase price of the Class A Share and commissions and costs, if any (to a maximum of 1% of the net asset value per Unit), related to the liquidation of any portion of the Portfolio to fund the purchase of the Class A Share and the payment of the Preferred Share Retraction Price. Any accrued or declared and unpaid dividends payable on or before a Retraction Date in respect of Preferred Shares tendered for retraction on such Retraction Date will also be paid on or before the Retraction Payment Date.

Shareholders also have an annual retraction right under which they may concurrently retract a Preferred Share and a Class A Share on the July Retraction Date in each year. The price paid by the Company for such a concurrent retraction will be equal to the net asset value per Unit calculated as of that date, less any related commissions and other costs (to a maximum of 1% of the net asset value per Unit) related to liquidating the Portfolio to pay such redemption amount.

As disclosed below under “*Description of the Shares of the Company – Resale of Shares Tendered for Retraction*”, if a holder of Preferred Shares tendered for retraction has not withheld his or her consent thereto in the manner provided in the Retraction Notice (as defined below) delivered to CDS Clearing and Depository Services Inc. (“CDS”) through a participant in the CDS book-based system (a “CDS Participant”), the Company may, but is not obligated to, require the Recirculation Agent (as defined below) to use its best efforts to find purchasers for any Preferred Shares tendered for

retraction prior to the relevant Retraction Payment Date pursuant to the Recirculation Agreement (as defined below). Holders of Preferred Shares are free to withhold their consent to such treatment and to require the Company to retract their Preferred Shares in accordance with their terms.

Subject to the Company's right to require the Recirculation Agent to use its best efforts to find purchasers prior to the relevant Retraction Payment Date for any Preferred Shares tendered for retraction, any and all Preferred Shares which have been surrendered to the Company for retraction are deemed to be outstanding until (but not after) the close of business on the relevant Retraction Date, unless the Preferred Share Retraction Price is not paid on the Retraction Payment Date, in which event such Preferred Shares will remain outstanding.

The retraction right must be exercised by causing written notice to be given within the notice periods prescribed herein and in the manner described below under "*Description of the Shares of the Company – Book-Entry Only System*". Such surrender will be irrevocable upon the delivery of notice to CDS through a CDS Participant, except with respect to those Preferred Shares which are not retracted by the Company on the relevant Retraction Payment Date.

If any Preferred Shares are tendered for retraction and are not resold in the manner described below under "*Description of the Shares of the Company – Resale of Shares Tendered for Retraction*", the Company will, prior to the Retraction Payment Date, purchase for cancellation that number of Class A Shares which equals the number of Preferred Shares so retracted. Any Class A Shares so purchased for cancellation will be purchased in the market.

Holders of Preferred Shares will also have the Recurring Special Retraction Right in connection with any extension of the Termination Date of the Company beyond December 1, 2018. See "*Description of the Shares of the Company – Term and Termination of the Company*" below.

Priority

The Preferred Shares rank in priority to the Class A Shares with respect to the payment of dividends (no dividends are payable on the Class B Shares) and in priority to the Class A Shares and the Class B Shares with respect to the repayment of capital on the dissolution, liquidation or winding-up of the Company.

Certain Provisions of the Class A Shares

Dividends and Distributions

The Class A Share conditions provide that the Company may pay dividends on the Class A Shares in such amounts as are determined by the directors in their discretion. The current policy of the Board of Directors is to provide holders of Class A Shares with regular monthly cash distributions targeted to be at an annualized rate of 10% based upon the volume-weighted average trading price of the Class A Shares on the TSX for the last three trading days of the preceding month. Such distributions may consist of Ordinary Dividends, capital gains dividends or non-taxable returns of capital. In addition, if any amounts remain available for the payment of dividends, a special year-end dividend of such amount will be payable to Class A Shareholders of record on the last day of November in each year.

No regular monthly distributions will be paid on the Class A Shares in any month as long as any dividends on the Preferred Shares are then in arrears or so long as the net asset value per Unit is equal to or less than \$15.00. Additionally, it is currently intended that no special year-end dividends will be paid if after payment of such a dividend the net asset value per Unit would be less than \$25.00.

Regular monthly dividends were paid to holders of the Class A Shares each month during the Company's last fiscal year ended November 30, 2016.

Distributions declared by the Board of Directors will be payable to holders of Class A Shares of record at 5:00 p.m. (local time in Toronto, Ontario) on the applicable Dividend Record Date with payment being made within 15 days thereafter.

Retraction Privileges

Class A Shares may be surrendered at any time for retraction to Computershare, but will be retracted only as of a Retraction Date. Class A Shares surrendered for retraction by a Shareholder at least 20 business days prior to a Retraction Date will be retracted and the holder will receive payment on or before the Retraction Payment Date. If a holder of Class A Shares makes such surrender after 5:00 p.m. (local time in Toronto) on the 20th business day immediately preceding a Retraction Date, the Class A Shares will be retracted as of the Retraction Date in the following month and the holder will receive payment for the retracted Shares as of the Retraction Payment Date in respect of the Retraction Date in the following month.

Except as noted below, holders of Class A Shares whose Class A Shares are surrendered for retraction will be entitled to receive a retraction price per Class A Share ("Class A Share Retraction Price") equal to 96% of the net asset value per Unit determined as of the Retraction Date, less the cost to the Company of the purchase of a Preferred Share in the market for cancellation and less any other applicable costs. For this purpose, the cost of the purchase of a Preferred Share will include the purchase price of the Preferred Share and commissions and costs, if any (to a maximum of 1% of the net asset value per Unit), related to the liquidation of any portion of the Portfolio to fund the purchase of the Preferred Share and the payment of the Class A Share Retraction Price. Any declared and unpaid dividends payable on or before a Retraction Date in respect of Class A Shares tendered for retraction on such Retraction Date will also be paid on or before the Retraction Payment Date.

Shareholders also have an annual retraction right under which they may concurrently retract a Preferred Share and a Class A Share on the July Retraction Date in each year. The price paid by the Company for such a concurrent retraction will be equal to the net asset value per Unit calculated as of that date, less any related commissions and other costs (to a maximum of 1% of the net asset value per Unit) related to liquidating the Portfolio to pay such redemption amount.

As disclosed below under "*Description of the Shares of the Company – Resale of Shares Tendered for Retraction*", if the holder of Class A Shares tendered for retraction has not withheld his consent thereto in the manner provided in the Retraction Notice delivered to CDS through a CDS Participant, the Company may, but is not obligated to, require the Recirculation Agent to use its best efforts to find purchasers for any Class A Shares tendered for retraction prior to the relevant Retraction Payment Date pursuant to the Recirculation Agreement. Holders of Class A Shares are free to withhold their consent to such treatment and to require the Company to retract their Class A Shares in accordance with their terms.

Subject to the Company's right to require the Recirculation Agent to use its best efforts to find purchasers prior to the relevant Retraction Payment Date for any Class A Shares tendered for retraction, any and all Class A Shares which have been surrendered to the Company for retraction are deemed to be outstanding until (but not after) the close of business on the relevant Retraction Date, unless the Class A Share Retraction Price is not paid on the Retraction Payment Date, in which event such Class A Shares will remain outstanding.

The retraction right must be exercised by causing written notice to be given within the notice periods prescribed herein and in the manner described below under “*Description of the Shares of the Company – Book-Entry Only System*”. Such surrender will be irrevocable upon the delivery of notice to CDS through a CDS Participant, except with respect to those Class A Shares which are not retracted by the Company on the relevant Retraction Date.

If any Class A Shares are tendered for retraction and are not resold in the manner described below under “*Description of the Shares of the Company – Resale of Shares Tendered for Retraction*”, the Company will, prior to the Retraction Payment Date, purchase for cancellation that number of Preferred Shares which equals the number of Class A Shares so retracted. Any Preferred Shares so purchased for cancellation will be purchased in the market.

Holders of Class A Shares will also have the Recurring Special Retraction Right in connection with any extension of the Termination Date of the Company beyond December 1, 2018. See “*Description of the Shares of the Company – Term and Termination of the Company*” below.

Priority

The Class A Shares rank subordinate to the Preferred Shares with respect to the payment of dividends (no dividends are payable on the Class B Shares) and subordinate to the Preferred Shares and the Class B Shares with respect to the repayment of capital on the dissolution, liquidation or winding-up of the Company.

Term and Termination of the Company

Payments on Termination

All Preferred Shares and Class A Shares outstanding on the Termination Date will be redeemed by the Company on such date. Immediately prior to the Termination Date, the Company will, to the extent possible, convert the Portfolio to cash and will pay or make adequate provision for all of the Company’s liabilities. Except in the case of an early termination following a Liquidation Event, the Company will, after receipt of the net cash proceeds of the liquidation of the Portfolio, as soon as practicable after the Termination Date:

- (a) distribute to the holders of the Preferred Shares an amount in respect of each Preferred Share to be redeemed equal to (i) the sum of (A) the lesser of (x) \$10.00 and (y) the net asset value of the Company on the Termination Date, divided by the number of Preferred Shares then outstanding, plus (B) an amount equal to the accrued and unpaid dividends on each Preferred Share to but excluding the Termination Date (the “Preferred Share Termination Redemption Price”), plus (ii) all declared and unpaid dividends on the Preferred Shares to but excluding the Termination Date;
- (b) return the initial investment amount of \$1,000 (\$1.00 per Class B Share) to the Trust (as defined below) which holds such shares for the benefit of the holders of the Preferred Shares and Class A Shares upon the redemption of the Class B Shares on the Termination Date; and
- (c) thereafter distribute to holders of the Class A Shares the remaining assets of the Company, if any, as soon as practicable after the Termination Date.

Early Termination Following a Liquidation Event

Subject to any applicable law, the Preferred Shares and the Class A Shares shall be redeemed by the Company on a Liquidation Date following a Liquidation Event. For these purposes, a “Liquidation Event” means the receipt by the Company of a notice from the TSX that the Preferred Shares or the Class A Shares are to be delisted by the TSX, or if the net asset value of the Company shall on any date on which such net asset value is calculated shall be less than \$5,000,000.

In the event a Liquidation Event occurs, the Company will (in addition to any obligation the Company may have under applicable law to issue an immediate press release and file a material change report in respect of such Liquidation Event), not less than 15 business days thereafter, issue an announcement (the “Liquidation Announcement”) referencing such occurrence and stating whether the Company will exercise its discretion to elect early termination of the Company as a result of such Liquidation Event. The Company will (i) specify in the Liquidation Announcement the Liquidation Date, which shall not be less than 60 days nor more than 90 days following the date the Liquidation Announcement is made, (ii) provide notice to each person who is a registered holder of Preferred Shares or Class A Shares to be redeemed of the intention of the Company to redeem such Preferred Shares and Class A Shares on such Liquidation Date, and (iii) set out the manner and place or places within Canada at which such Preferred Shares and Class A Shares will be redeemed.

On a Liquidation Date, the Company shall pay:

- (a) an amount in respect of each Preferred Share to be redeemed equal to the sum of (A) the sum of (x) the net asset value per Unit on the Liquidation Date multiplied by a fraction, the numerator of which is the volume weighted average trading price (“VWAP”) of the Preferred Shares calculated over the 20 trading days ending immediately prior to the Liquidation Announcement and the denominator of which is the aggregate VWAP of the Preferred Shares and the Class A Shares calculated over the 20 trading days ending immediately prior to the Liquidation Announcement plus (y) an amount equal to the accrued and unpaid dividends on each Preferred Share to but excluding the Liquidation Date (the “Preferred Share Liquidation Redemption Price”), plus (B) all declared and unpaid dividends on a Preferred Share to be redeemed to but excluding the Liquidation Date; and
- (b) an amount in respect of each Class A Share to be redeemed equal to the sum of (A) the net asset value per Unit on the Liquidation Date multiplied by a fraction, the numerator of which is the VWAP of the Class A Shares calculated over the 20 trading days ending immediately prior to the Liquidation Announcement and the denominator of which is the aggregate VWAP of the Class A Shares and the Preferred Shares calculated over the 20 trading days ending immediately prior to the Liquidation Announcement (the “Class A Share Liquidation Redemption Price”), plus (B) all declared and unpaid dividends on a Class A Share to be redeemed to but excluding the Liquidation Date.

Extensions of the Termination Date

The Termination Date of the Company may be extended after December 1, 2018 for a further period of five years and thereafter for additional successive periods of five years each as determined by the Board of Directors. In the event the Board of Directors elects to so extend the Termination Date, holders of Preferred Shares and Class A Shares shall have the right to retract such Shares by exercising the Recurring Special Retraction Right. Not less than 60 days prior to a scheduled Termination Date, the Company shall provide notice to each person who is a registered holder of Preferred Shares or Class A

Shares either of (i) of the determination of the Board of Directors to extend the Termination Date for a further five year period, of the rights of the holders of such Shares to the Recurring Special Retraction Right, and of the rate at which cumulative preferential cash dividends shall be paid on the Preferred Shares for the ensuing five year period; or (ii) of the determination of the Board of Directors not to extend the Termination Date for a further five year period, in which event such notice shall set out the Termination Date, and the manner and place or places within Canada on which the Preferred Shares and Class A Shares will be redeemed on that Termination Date. The Company shall also issue a press release providing the same information on the date such notice is given to the registered holder or holders of Preferred Shares and Class A Shares.

Recurring Special Retraction Right

In the event that the Termination Date is extended in any Extension Year, each holder of Preferred Shares or Class A Shares shall have the right to retract such Preferred Shares or Class A Shares effective December 1 of such Extension Year (the “Recurring Special Retraction Right”). The price payable per Preferred Share so retracted shall be equal to (i) the sum of (A) the lesser of (x) \$10.00 and (y) the net asset value of the Company calculated on November 30 of such Extension Year, divided by the number of Preferred Shares then outstanding, plus (B) an amount equal to the accrued and unpaid dividends on each Preferred Share to but excluding November 30 of such Extension Year, plus (ii) all declared and unpaid dividends thereon to but excluding November 30 of such Extension Year. The price payable per Class A Share so retracted shall be equal to the greater of (i) the net asset value per Unit calculated on November 30 of such Extension Year less \$10.00, and (ii) zero. Holders of Preferred Shares or Class A Shares wishing to take advantage of the Recurring Special Retraction Right must surrender their Preferred Shares or Class A Shares for retraction no later than the close of business on November 1 of such Extension Year (or, if November 1 of such year is not a business day, on the immediately preceding business day). Payment of the retraction price per Preferred Share or Class A Share owing in respect of the exercise of the Recurring Special Retraction Right will be made on or before December 15 of such Extension Year (or, if December 15 of such year is not a business day, on the immediately succeeding business day).

Special Redemption Right

Following any exercise of the Recurring Special Retraction Right, the Company shall have the right to redeem, on a pro rata basis, as at December 31 of the year in which the Recurring Special Retraction Right is exercised, such number of Preferred Shares (if more Class A Shares than Preferred Shares are tendered for redemption upon any exercise of the Recurring Special Retraction Right) or such number of Class A Shares (if more Preferred Shares than Class A Shares are tendered for redemption upon any exercise of the Recurring Special Retraction Right) as is required to achieve an equality in the number of outstanding Preferred Shares and Class A Shares (the “Special Redemption Right”) at a price per Preferred Share equal to (i) the sum of (A) the lesser of (x) \$10.00 and (y) the net asset value of the Company calculated on December 31 of Year the year in which the Recurring Special Retraction Right is exercised, divided by the number of Preferred Shares then outstanding, plus (B) an amount equal to the accrued and unpaid dividends on each Preferred Share to but excluding December 31 of such year, plus (ii) all declared and unpaid dividends thereon to but excluding December 31 of such year; and at a price per Class A Share equal to the greater of (iii) the net asset value per Unit calculated on December 31 of the year in which the Recurring Special Retraction Right is exercised less \$10.00, and (iv) zero (the “Applicable Special Redemption Price”). In connection with any exercise of this Special Redemption Right, the Company shall, at least 15 days prior to December 31 of the year in which the Recurring Special Retraction Right is exercised, provide notice to each person who is a registered holder of Preferred Shares (in the case of a redemption of Preferred Shares) or a registered holder of Class A Shares (in the case of a redemption of Class A Shares) to be redeemed of the intention of the Company to redeem

such Preferred Shares or Class A Shares, as the case may be, and of the manner and place or places within Canada at which such Preferred Shares or Class A Shares will be redeemed.

No later than 30 days after December 31 of the year in which the Special Redemption Right is exercised, the Company shall pay or cause to be paid to or to the order of the registered holders of the Preferred Shares or Class A Shares to be redeemed, as the case may be, an amount per Preferred Share or Class A Share equal to the Applicable Special Redemption Price. Payment of the Applicable Special Redemption Price shall be made by cheque(s) of the Company drawn on a Canadian chartered bank or a trust company incorporated under or governed by the laws of Canada or of a Province of Canada and payable to the holders thereof in lawful money of Canada at par at any branch in Canada of such bank or trust company or in any other manner acceptable to the Company and a registered holder of Preferred Shares or Class A Shares, as the case may be. The mailing of such a cheque to a registered holder of Preferred Shares or Class A Shares from the Company's registered office or the principal office in Toronto of the registrar for the Preferred Shares or Class A Shares shall be deemed to be payment in accordance with this Section and shall satisfy and discharge all liability in respect of such Applicable Special Redemption Price to the extent of the amount represented by such cheque, unless such cheque is not paid on due presentation. From and after December 31 of such year, the holders of the Preferred Shares or Class A Shares called for redemption shall cease to be entitled to dividends or to exercise any rights as Shareholders of the Company in respect of such Shares except the right to receive the Applicable Special Redemption Price; provided that if payment of such Applicable Special Redemption Price is not made in accordance with the provisions hereof, then the rights of the holders of the Preferred Shares or Class A Shares shall remain unimpaired.

Subdivision or Consolidation of the Preferred Shares or the Class A Shares

The Company shall have the right, subject to the approval of the holder of the Class B Shares, to further amend its articles of incorporation to provide for a subdivision or consolidation of the Preferred Shares or the Class A Shares to the extent that the Manager advises the Company that it considers such subdivision or consolidation necessary or advisable in connection with any implementation of the Recurring Special Retraction Right, so as to ensure that after such implementation an equal number of Preferred Shares and Class A Shares remain outstanding.

Resale of Shares Tendered for Retraction

The Company has entered into an agreement dated June 28, 2005 (the "Recirculation Agreement") with CIBC World Markets Inc. (the "Recirculation Agent") and Computershare whereby the Recirculation Agent has agreed to use its best efforts to find purchasers for any Preferred Shares or Class A Shares tendered for retraction prior to the relevant Retraction Payment Date, provided that the holder of the Shares so tendered has not withheld consent thereto. The Company is not obligated to require the Recirculation Agent to seek such purchasers but may elect to do so. In the event that a purchaser for such Shares is found in this manner, the notice of retraction will be deemed to have been withdrawn prior to the relevant Retraction Date and the Shares shall remain outstanding. The amount to be paid to the holder of such Shares on the relevant Retraction Payment Date will be an amount equal to the proceeds of the sale of such Shares less any applicable commission. Such amount will not be less than the applicable Preferred Share Retraction Price or the Class A Share Retraction Price, as the case may be. Accordingly, the proceeds of the sale of the tendered securities by the Recirculation Agent must be equal to or exceed the applicable Preferred Share Retraction Price or the Class A Share Retraction Price.

Suspension of Retractions or Redemptions

The Company may suspend the retraction or redemption of Preferred Shares and Class A Shares or payment of retraction or redemption proceeds during any period when normal trading is suspended on one or more stock exchanges on which more than 50% of the equity securities held by the Company are listed or, with the prior permission of the Ontario Securities Commission, for any period not exceeding 120 days during which the Company determines that conditions exist which render impractical the sale of assets of the Company or which impair the ability of the Company to determine the value of the assets of the Company. The suspension may apply to all requests for retraction received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect.

All Shareholders making such requests shall be advised by the Company of the suspension and that the retraction will be effected at a price determined on the first Valuation Date following the termination of the suspension. All such Shareholders shall have and shall be advised that they have the right to withdraw their requests for retraction. The suspension shall terminate in any event on the first day on which the condition giving rise to the suspension has ceased to exist provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Company, any declaration of suspension made by the Company shall be conclusive.

Book-Entry Only System

Registration of interests in and transfers of the Preferred Shares and Class A Shares will be made only through a book-based system administered by CDS (the “book-entry only system”). Preferred Shares and Class A Shares must be purchased, transferred and surrendered for retraction or redemption through a CDS Participant. All rights of a beneficial owner of Preferred Shares or Class A Shares must be exercised through, and all payments or other property to which such beneficial owner is entitled will be made or delivered by, CDS or the CDS Participant through which the beneficial owner holds such Preferred Shares or Class A Shares. Upon purchase of any Preferred Shares or Class A Shares, the beneficial owner will receive only the customary confirmation.

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

A beneficial owner of Preferred Shares or Class A Shares who desires to exercise its retraction privileges thereunder must do so by causing a CDS Participant to deliver to CDS (at its office in the City of Toronto) on behalf of the beneficial owner a written notice of the beneficial owner’s intention to retract Shares, no later than 5:00 p.m. (local time in Toronto, Ontario) on the relevant notice date. A beneficial owner who desires to retract Preferred Shares or Class A Shares should ensure that the CDS Participant is provided with notice (the “Retraction Notice”) of its intention to exercise its retraction privilege sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver notice to CDS by the required time. The Retraction Notice will be available from a CDS Participant or Computershare, the Company’s transfer agent and registrar. Any expense associated with the preparation and delivery of Retraction Notices will be for the account of the beneficial owner exercising the retraction privilege.

By causing a CDS Participant to deliver to CDS a notice of the beneficial owner’s intention to retract Shares, a beneficial owner shall be deemed to have irrevocably surrendered its Shares for retraction and appointed such CDS Participant to act as its exclusive settlement agent with respect to the

exercise of the retraction privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

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

The Company has the option to terminate registration of the Preferred Shares or Class A Shares through the book-entry only system, in which case certificates for Preferred Shares or Class A Shares, as the case may be, in fully registered form would be issued to beneficial owners of such Shares, or their nominees.

Meetings of Shareholders

Except as required by law or set out below, holders of Preferred Shares and Class A Shares will not be entitled to receive notice of, to attend or to vote at any meeting of Shareholders.

Acts Requiring Shareholder Approval

The following matters require the approval of the holders of Preferred Shares and Class A Shares by a two-thirds majority vote (other than matters referred to in paragraphs (c), (l) and (m), which require approval of a simple majority vote) at a meeting called and held for such purpose: (a) a change in the fundamental investment objectives and strategy of the Company; (b) a change in the investment restrictions of the Company as described under "*Investment Restrictions*"; (c) the entering into by the Company of transactions involving derivatives, other than as described in the Initial Prospectus and other than the use of derivatives as permitted for a mutual fund under NI 81-102; (d) any change in the basis of calculating fees or other expenses that are charged to the Company which could result in an increase in charges to the Company other than a fee or expense charged by a person or company that is at arm's length to the Company and in respect of which holders of Preferred Shares and Class A Shares are sent a written notice at least 60 days before the effective date of such change (for purposes of this provision, Quadravest shall be deemed to not be at arm's length to the Company); (e) the introduction of a fee or expense to be charged to the Company or directly to Shareholders by the Company or Quadravest in connection with the holding of securities of the Company that could result in an increase in charges to the Company or its Shareholders; (f) the approval of the appointment of a successor to Quadravest as manager following the resignation of Quadravest unless an affiliate is appointed; (g) the removal of Quadravest as manager and the appointment of a successor in the event Quadravest is insolvent, or is in breach or default of its obligations under the Management Agreement (as defined below) and such breach or default is not cured within 30 days of notice of such breach or default being given to Quadravest; (h) the approval of any other change of manager of the Company unless an affiliate of Quadravest becomes the manager; (i) the approval of the assignment of the Investment Management Agreement (as defined below) by Quadravest, except to an affiliate; (j) the confirmation of the appointment of a successor to Quadravest as investment manager in the event the Company terminates the Investment Management Agreement unless an affiliate is appointed; (k) the approval of the termination of the Investment Management Agreement by Quadravest, unless the reason for such termination is (i) a material breach or default by the Company of its obligations under the Investment Management Agreement where notice of such breach or default has been provided by Quadravest to the Company and it remains uncured for 30 days, or (ii) there has been a material change to the fundamental investment objectives, strategies or criteria of the Company; (l) a decrease in the frequency of calculating the net asset value; (m) a change of

the auditor of the Company, unless such change does not require Shareholder approval under applicable securities legislation; (n) any merger of the Company for which Shareholder approval under NI 81-102 would be required; (o) an amendment, modification or variation in the provisions or rights attaching to the Preferred Shares, Class A Shares or Class B Shares; and (p) any other change for which the approval of the holders of the Preferred Shares and the Class A Shares is required under the provisions of the *Business Corporations Act* (Ontario).

Each Preferred Share and Class A Share will have one vote at such a meeting and will not vote separately as a class in respect of any vote taken (except for a vote in respect of the matters referred to in paragraphs (a), (b) and (o) above and any other matters referred to above if a class is affected by the matter in a manner different from the other classes of shares of the Company). Ten per cent of the outstanding Preferred Shares and Class A Shares, respectively, represented in person or by proxy at the meeting will constitute a quorum. If no quorum is present, the holders of Preferred Shares and Class A Shares then present will constitute a quorum at an adjourned meeting.

Reporting to Shareholders

The Company will deliver (or, if permitted by law, make available) to each Shareholder annual and semi-annual financial statements of the Company, annual and interim management reports of fund performance and such additional or other statements or reports as may be required by law. Each Shareholder will be mailed annually, no later than February 28, information necessary to enable such Shareholder to complete an income tax return with respect to amounts paid or payable by the Company in respect of the preceding calendar year.

VALUATION OF PORTFOLIO SECURITIES

The net asset value of the Company is calculated by RBC Investor Services Trust (“RBC Trust”) as of each Retraction Date and as of the 15th day of each month or if the 15th day of each month is not a Business Day then the immediately preceding Business Day (each, a “Valuation Date”) by subtracting the aggregate amount of the Company’s liabilities from its total assets. The Company’s assets are valued in accordance with any requirements of law, including National Instrument 81-106 *Investment Fund Continuous Disclosure* (“NI 81-106”), except to the extent the Company has received an exemption therefrom, and the following valuation principles of RBC Trust:

- (a) the value of any cash on hand, on deposit or on call, prepaid expenses, cash dividends declared and interest accrued and not yet received, shall be deemed to be the face amount thereof, unless RBC Trust determines that any such deposit or call loan is not worth the face amount thereof, in which event the value thereof shall be deemed to be such value as RBC Trust determines to be the reasonable value thereof;
- (b) the value of any bonds, debentures, and other debt obligations shall be valued by taking the average of the bid and ask prices on a Valuation Date at such times as RBC Trust, in its discretion, deems appropriate. Short-term investments including notes and money market instruments shall be valued at cost plus accrued interest;
- (c) the value of any security, index futures or index options thereon which is listed on any recognized exchange shall be determined by the sale price at the time of valuation or, if there is no sale price, the average between the bid and the asked price on the day on which the net asset value of the Company is being determined, all as reported by any report in common use or authorized as official by a recognized stock exchange; provided

that if such stock exchange is not open for trading on that date, then on the last previous date on which such stock exchange was open for trading;

- (d) the value of any security or other asset for which a market quotation is not readily available shall be its fair market value as determined by RBC Trust;
- (e) the value of any security, the resale of which is restricted or limited, shall be the lesser of the value thereof based on reported quotations in common use and that percentage of the market value of securities of the same class, the trading of which is not restricted or limited by reason of any representation, undertaking or agreement or by law, equal to the percentage that the Company's acquisition cost was of the market value of such securities at the time of acquisition; provided that a gradual taking into account of the actual value of the securities may be made where the date on which the restriction will be lifted is known;
- (f) purchased or written clearing corporation options, options on futures, over-the-counter options, debt-like securities and listed warrants shall be valued at the current market value thereof;
- (g) where a covered clearing corporation option, option on futures or over-the-counter option is written, the premium received by the Company shall be reflected as a deferred credit which shall be valued at an amount equal to the current market value of the clearing corporation option, option on futures or over-the-counter option that would have the effect of closing the position. Any difference resulting from revaluation shall be treated as an unrealized gain or loss on investment. The deferred credit shall be deducted in arriving at the net asset value of the Company. The securities, if any, which are the subject of a written clearing corporation option, or over-the-counter option shall be valued at their then current market value;
- (h) the value of a futures contract, or a forward contract, shall be the gain or loss with respect thereto that would be realized if, at the time of valuation, the position in the futures contract, or the forward 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;
- (i) margin paid or deposited in respect of futures contracts and forward contracts shall be reflected as an account receivable and margin consisting of assets other than cash shall be noted as held as margin;
- (j) all assets of the Company valued in a foreign currency and all liabilities and obligations of the Company payable by the Company in foreign currency shall be converted into Canadian funds by applying the rate of exchange obtained from the best available sources to RBC Trust including, but not limited to, RBC Trust or any of its affiliates; and
- (k) all expenses or liabilities (including fees payable to QuadraVest) of the Company shall be calculated on an accrual basis.

The value of any security or property to which, in the opinion of RBC Trust, the above valuation principles cannot be applied (whether because no price or yield equivalent quotations are available as above provided, or for any other reason) shall be the fair value thereof determined in such manner as RBC

Trust from time to time provides. Quadravest does not have the discretion to require RBC Trust to deviate from these valuation principles.

CALCULATION OF NET ASSET VALUE

The net asset value per Unit is the amount obtained by dividing the net asset value of the Company as of a particular Valuation Date by the total number of Units outstanding on that date. The net asset value per Unit, as of the most recent mid-month or month-end Valuation Date, will be provided by Quadravest to Shareholders on request and will be available electronically at any time to Shareholders at www.primerateplus.com.

PURCHASES AND SWITCHES

Preferred Shares and Class A Shares are not currently being offered. There are no applicable switch rights.

RETRACTIONS AND REDEMPTIONS

Retraction and redemption rights are discussed above under “*Description of the Shares of the Company – Certain Provisions of the Preferred Shares*”, “*Description of the Shares of the Company – Certain Provisions of the Class A Shares*” and “*Description of the Shares of the Company – Term and Termination of the Company*”.

MANAGEMENT OF THE COMPANY

Directors and Officers of the Company

The following are the names, municipalities of residence, office and principal occupations of the directors and officers of the Company.

<u>Name and Municipality of Residence</u>	<u>Office</u>	<u>Principal Occupation</u>
S. WAYNE FINCH ⁽¹⁾ Caledon, Ontario	Chairman, President, Chief Executive Officer and Director	Chief Executive and Chief Investment Officer, Quadravest Capital Management Inc.
LAURA L. JOHNSON Oakville, Ontario	Secretary and Director	Managing Director and Portfolio Manager, Quadravest Capital Management Inc.
PETER F. CRUICKSHANK Oakville, Ontario	Chief Financial Officer and Director	Managing Director and Chief Financial Officer, Quadravest Capital Management Inc.
WILLIAM C. THORNHILL Mississauga, Ontario	Director	President, William C. Thornhill Consulting Inc.
MICHAEL W. SHARP ⁽¹⁾ Toronto, Ontario	Director	Partner, Blake, Cassels & Graydon LLP

JOHN D. STEEP⁽¹⁾
Stratford, Ontario

Director

President, S Factor Consulting Inc.

⁽¹⁾ Member of the Audit Committee.

All of the directors and officers of the Company have held the same principal occupation for the five years preceding the date hereof.

The Manager

Pursuant to an agreement between the Company and Quadravest Inc. dated June 28, 2005, assigned to Quadravest effective June 1, 2010 (the "Management Agreement"), Quadravest is the manager of the Company and, as such, is responsible for providing or arranging for administrative services required by the Company including, without limitation, authorizing the payment of operating expenses incurred on behalf of the Company; preparing financial statements and financial and accounting information as required by the Company; ensuring that Shareholders are provided with financial statements (including semi-annual and annual financial statements) and other reports as are from time to time required by applicable law; ensuring that the Company complies with regulatory requirements and applicable stock exchange listing requirements; preparing the Company's reports to Shareholders and the Canadian Securities Administrators; determining the amount of dividends to be paid by the Company; and negotiating contractual agreements with third-party providers of services, including registrars, transfer agents, auditor and printers.

Quadravest is required to exercise the powers and discharge the duties of its office under the Management Agreement honestly, in good faith and in the best interests of Shareholders, and in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent manager would exercise in similar circumstances.

Quadravest may resign as manager upon 60 days' notice to Shareholders and the Company or such lesser notice as the Company may accept. If Quadravest resigns it may appoint its successor, but its successor must be approved by Shareholders unless it is an affiliate of Quadravest. If Quadravest commits certain events of bankruptcy or insolvency or is in material breach or default of its obligations under the Management Agreement and such breach or default has not been cured within 30 days after notice of same has been given to Quadravest, the Company shall give notice thereof to Shareholders and the Shareholders may remove Quadravest as manager and appoint a successor. Except as described above, Quadravest cannot be terminated as manager of the Company.

Quadravest 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 it on behalf of the Company. In addition, Quadravest and each of its directors, officers, employees and agents will be indemnified by the Company under the Management Agreement from and against all legal fees, judgments and amounts paid in settlement, actually and reasonably incurred by Quadravest or any of its officers, directors, employees or agents in the exercise of its duties as manager, unless those fees, judgments or amounts paid in settlement were incurred as a result of a breach by Quadravest of the standard of care described above and provided the Company has reasonable grounds to believe that the action or inaction that caused the payment of the fee, judgment or amount paid in settlement was in the best interests of the Company.

The management services of Quadravest under the Management Agreement are not exclusive and nothing in the Management Agreement prevents Quadravest 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 Company) or from engaging in other activities. For a list of the directors and officers of Quadrainvest, see “*Management of the Company – The Investment Manager*”.

The Investment Manager

Quadrainvest will manage the Company’s investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Company pursuant to an agreement between the Company and Quadrainvest dated June 28, 2005 (the “Investment Management Agreement”). Investment assets are generally managed by Quadrainvest to meet specific absolute return objectives rather than taking on the additional risk of targeting relative returns. As a result of the dual focus of absolute returns and capital preservation, Quadrainvest is able to adopt a more defensive approach in implementing its investment strategies than would be the case if it focused on relative returns. Quadrainvest relies on fundamental analysis in managing equity portfolios, such that it focuses on a company’s earnings history, relative price - earnings multiple, cash flow, dividend yield, market position and growth prospects.

Directors and Officers of Quadrainvest

The name and municipality of residence of each of the directors and officers of Quadrainvest are as set out below.

<u>Name and Municipality of Residence</u>	<u>Office</u>
S. WAYNE FINCH Caledon, Ontario	Chairman, President, Secretary, Chief Executive Officer, Chief Investment Officer and Director
LAURA L. JOHNSON Oakville, Ontario	Managing Director and Portfolio Manager
PETER F. CRUICKSHANK Oakville, Ontario	Managing Director and Chief Financial Officer

Wayne Finch is the Chairman and Chief Investment Officer of Quadrainvest. Mr. Finch has over 30 years of experience in designing and managing investment portfolios. Prior to forming Quadrainvest in 1997, Mr. Finch was Vice-President and a portfolio manager of a number of publicly traded investment vehicles employing investment strategies similar to those of the Company, and prior to that was a portfolio manager in the treasury operations of a major Canadian trust company where he managed a number of common and preferred share portfolios and mutual funds.

Laura L. Johnson is the Portfolio Manager and Managing Director of Quadrainvest. Ms. Johnson has over 24 years of experience in the financial services industry, including extensive experience with investment products employing investment strategies similar to those of the Company. Ms. Johnson has significant experience in structured finance, equity, fixed income and option areas.

Peter F. Cruickshank is the Chief Financial Officer and Managing Director of Quadrainvest. Mr. Cruickshank is a chartered accountant who has spent the last 31 years of his career in the investment industry. Prior to joining Quadrainvest, he was a director and the chief financial officer of another investment management firm from 1986 to 1999.

Investment Management Agreement

The services to be provided by Quadravest pursuant to the Investment Management Agreement will include the making of all investment decisions for the Company and managing the Company's call option writing, all in accordance with the investment objectives, strategy and criteria of the Company. Decisions as to the purchase and sale of securities comprising the Portfolio and as to the execution of all portfolio and other transactions will be made by Quadravest. In the purchase and sale of securities for the Company and the writing of option contracts, Quadravest will seek to obtain overall services and prompt execution of orders on favourable terms.

Under the Investment Management Agreement, Quadravest is required to act at all times on a basis which is fair and reasonable to the Company, to act honestly and in good faith with a view to the best interests of the Shareholders and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent portfolio manager would exercise in comparable circumstances. The Investment Management Agreement provides that Quadravest will not be liable in any way for any default, failure or defect in or diminution in the value of any of the securities in the Portfolio if it has satisfied the standard of care, diligence and skill set forth above. Quadravest will incur liability for any breach of this standard of care.

The Investment Management Agreement, unless terminated as described below, will continue in effect until the final redemption of the Preferred Shares and Class A Shares on the Termination Date. The Company may terminate the Investment Management Agreement prior to the Termination Date if Quadravest has committed certain events of bankruptcy or insolvency or is in material breach or default of the provisions of the agreement and such breach has not been cured within 30 days after notice of the breach has been given to Quadravest. Otherwise, Quadravest cannot be terminated as investment manager of the Company.

Except as set out below, Quadravest may not terminate the Investment Management Agreement or assign the same except to an affiliate of Quadravest, without Shareholder approval. Quadravest may terminate the Investment Management Agreement if the Company is in material breach or default of the provisions thereof and such breach or default has not been cured within 30 days of notice of the breach or default to the Company or if there is a material change in the fundamental investment objectives, strategy or criteria of the Company.

If the Investment Management Agreement is terminated, the Board of Directors will promptly appoint a successor investment manager to carry out the activities of Quadravest until a meeting of Shareholders is held to confirm such appointment.

Quadravest is entitled to fees for its services under the Investment Management Agreement as described under "*Fees and Expenses*" and will be reimbursed for all reasonable costs and expenses incurred by it on behalf of the Company. In addition, Quadravest and each of its directors, officers, employees and agents will be indemnified by the Company under the Investment Management Agreement from and against all legal fees, judgments and amounts paid in settlement, actually and reasonably incurred by Quadravest or any of its officers, directors, employees or agents in the exercise of its duties as investment manager, unless those fees, judgments or amounts paid in settlement were incurred as a result of a breach by Quadravest of the standard of care described above and provided the Company has reasonable grounds to believe that the action or inaction that caused the payment of the fee, judgment or amount paid in settlement was in the best interests of the Company.

Registrar, Transfer Agent, Custodian and Auditor

Pursuant to a Transfer Agent, Registrar and Dividend Disbursing Agreement dated June 28, 2005, Computershare, at its principal office in Toronto, has been appointed the registrar and transfer agent for the Preferred Shares and the Class A Shares and is responsible for assisting the Company in disbursing dividends and other distributions to holders of the Preferred Shares and the Class A Shares.

Pursuant to an agreement (the “Custodian Agreement”) dated June 28, 2005, The Royal Trust Company was appointed as the custodian of the assets of the Company. Such agreement was assigned to RBC Dexia Investor Services Trust (now RBC Trust) effective January 1, 2006. RBC Trust is, in addition to acting as custodian, also responsible for certain aspects of the day-to-day administration of the Company, including processing retractions, calculating net asset value and maintaining the fund valuation books and records of the Company. The address of the RBC Trust is 155 Wellington Street West, Toronto, Ontario M5V 3L3, Attention: International Investment Products. RBC Trust will not have any responsibility or liability for any assets of the Company which it does not directly hold or have control over (including through its sub-custodians), including, without limitation, any assets of the Company pledged to a counterparty pursuant to derivatives transactions entered into by the Company, if any. RBC Trust is entitled to receive fees from the Company and to be reimbursed for all expenses and liabilities which are properly incurred by RBC Trust in connection with the activities of the Company.

The auditor of the Company is PricewaterhouseCoopers LLP, PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario M5J 0B2. PricewaterhouseCoopers LLP has prepared an independent auditor’s report dated February 22, 2017 in respect of the Company’s financial statements for its fiscal year ended November 30, 2016. PricewaterhouseCoopers LLP has advised that it is independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Professional Accountants of Ontario.

CONFLICTS OF INTEREST

Principal Holders of Securities

All of the issued and outstanding Class B Shares of the Company are owned by Prime Rate Plus Corp. Holding Trust (the “Trust”), of which S. Wayne Finch is the trustee and the holders of the Preferred Shares and Class A Shares from time to time are the beneficiaries. As a result, any amount payable in respect of the redemption of Class B Shares on the Termination Date will be paid to the holders of the Preferred Shares and Class A Shares on such date. The Class B Shares are held in escrow by RBC Trust pursuant to an agreement dated June 28, 2005 (the “Escrow Agreement”) between the Trust, RBC Trust and the Company and will not be disposed of or dealt with in any manner until all the Preferred Shares and Class A Shares have been retracted or redeemed, except in certain circumstances contemplated by the Escrow Agreement.

Affiliated Entities

Except as disclosed in this Annual Information Form, no affiliated entities provide services to the Company.

Manager and Investment Manager

Quadravest is engaged in a variety of management, investment management and other business activities. The services of Quadravest under the Management Agreement and Investment Management Agreement are not exclusive and nothing in those agreements prevents Quadravest or any of its affiliates

from providing similar services to other investment funds and other clients (whether or not their investment objectives, strategies and policies are similar to those of the Company) or from engaging in other activities. Quadravest's investment decisions for the Company will be made independently of those made for its other clients and independently of its own investments. However, on occasion, Quadravest may make the same investment for the Company and for one or more of its other clients. If the Company and one or more of the other clients of Quadravest are engaged in the purchase or sale of the same security, the transactions will be effected on an equitable basis.

Quadravest will receive the fees described under "*Fees and Expenses*" for its services to the Company and will be reimbursed by the Company for all expenses incurred in connection with the operation and administration of the Company. S. Wayne Finch controls Quadravest Inc., which in turn owns all of the voting shares of Quadravest.

Insider Reporting

Quadravest and Quadravest Inc. have each undertaken to file, and have agreed to cause their directors and senior officers to file, insider trading reports as if the Company was not a mutual fund, in accordance with applicable securities legislation in respect of trades made by it or those directors and senior officers in Shares of the Company.

The senior officers and directors of the Company have also undertaken to file insider trading reports, as if the Company was not a mutual fund, in accordance with applicable provincial securities legislation, for themselves. The Company has undertaken that it will not elect or appoint any person in the future as a senior officer or director unless such person undertakes to file insider trading reports as if the Company was not a mutual fund, in accordance with applicable provincial securities legislation and to deliver to the applicable Canadian Securities Administrators an undertaking to file insider trading reports in accordance with applicable provincial securities legislation. The foregoing undertakings shall remain in full force until such time as, in the case of the undertaking of Quadravest and Quadravest Inc., the voting shares of the Company are not controlled directly or indirectly by Mr. Finch; in the case of the undertakings of a director or senior officer of the Company, such person ceases to be a director or officer of the Company; or in each case all of the Preferred Shares and Class A Shares have been redeemed or retracted.

Brokerage Arrangements

When the services and prices offered by more than one broker or dealer are comparable and satisfy best execution criteria, Quadravest may choose to effect portfolio transactions with brokers and dealers who provide services such as research, statistical data, financial and economic databases and other similar services. The following companies have provided financial information services that Quadravest uses as part of its investment decision making process and remuneration for these services was paid through brokerage commissions on trades executed by the Company under "client commissions arrangements" (also known as "soft dollar arrangements"): Bloomberg, Dow Jones Canada, Options Price Reporting Authority, Thomson Reuters, New York Stock Exchange, Institutional Shareholder Services and TMX Group Inc.

FEES AND EXPENSES

Pursuant to the Management Agreement, Quadravest is entitled to an administration fee payable monthly in arrears at an annual rate equal to 0.20% of the Company's net asset value calculated as at the last Valuation Date in each month, plus an amount equal to the service fee (the "Service Fee") payable to

dealers. The Company will also pay any goods and services taxes or harmonized sales taxes applicable to this administration fee.

Quadravest will pay the Service Fee to each dealer whose clients hold Class A Shares. The Service Fee will be calculated and paid at the end of each calendar quarter and will be equal to 0.50% annually of the value of the Class A Shares held by clients of the dealer. For these purposes, the value of a Class A Share at any time is the net asset value per Unit at such time less \$10.00. No Service Fee will be paid in any calendar quarter if regular dividends are not paid to holders of Class A Shares in respect of each month of such calendar quarter.

Pursuant to the terms of the Investment Management Agreement, Quadravest is entitled to a base management fee payable monthly in arrears at an annual rate equal to 0.65% of the Company's net asset value calculated as at the last Valuation Date in each month.

Quadravest is also entitled to a performance fee equal to 20% of the total return per Unit of the Company for a financial year (which includes all cash distributions per Unit made during the year and any increase in the net asset value per Unit from the beginning of the year after the deduction on a per Unit basis of all fees, other expenses and distributions) that exceeds 112% of the Bonus Threshold. The "Bonus Threshold", for any financial year immediately following a year for which a performance fee is payable, is equal to the net asset value per Unit at the beginning of that financial year. The "Bonus Threshold", for any financial year immediately following a year for which a performance fee is not payable, is equal to the greater of (i) the net asset value per Unit at the end of the immediately prior financial year; and (ii) the Bonus Threshold for the prior year, minus the Adjustment Amount. The "Adjustment Amount" for any financial year is the amount, if any, by which the net asset value per Unit at the end of the immediately prior financial year plus dividends paid in that prior year exceeds the Bonus Threshold for that prior year.

No performance fee may be paid in any year if, at the end of such year, (i) the net asset value per Unit is less than \$25.00; (ii) DBRS has then rated the Preferred Shares at less than Pfd-2 (or, if DBRS has not then rated such Shares, then the equivalent rating of another rating agency that has rated such Shares shall apply); or (iii) the Company has not earned a total annual return of at least the "Base Return" on a cumulative basis since inception. The Base Return in any year is the greater of 5% and the annual total return for such year as measured by the Scotia Capital 91-day T-Bill Index.

The T-Bill Index reflects income yields available to investors who acquire "risk-free" 91-day Treasury bills. Quadravest believes that the T-Bill Index is an appropriate benchmark against which to assess the performance of the total return per Unit as the investment objective of the Company is to achieve targeted returns for the Preferred Shares and the Class A Shares. Although the actual returns may be achieved in part through the capital appreciation of equity securities, the principal objective, as evidenced by the Company's intention to write covered call options, is to achieve the targeted returns and not to track the performance of an investment in the equity securities. As a result, Quadravest believes that the most appropriate benchmark is one that focuses on yield and not on the investment performance of equity securities.

The performance fee, if payable, will be deducted from the amount otherwise payable to the holders of the Class A Shares. The Company will also pay any goods and services taxes or harmonized sales taxes applicable to the performance fee.

The Company will pay for all other expenses incurred in connection with the operation and administration of the Company, estimated to be approximately \$300,000 per annum. These expenses are expected to include, without limitation, mailing and printing expenses for periodic reports to

Shareholders; fees payable to the Company's custodian for acting as custodian of the assets of the Company and performing certain administrative services under the Custodian Agreement; fees payable to the Company's registrar and transfer agent with respect to the Preferred Shares and Class A Shares; fees payable to the independent directors of the Company and the independent review committee; fees payable to the auditor and legal advisors of the Company; regulatory filing and stock exchange fees (including any such fees payable by Quadravest in respect of the services it provides to the Company); and expenditures incurred upon the dissolution of the Company. Such expenses will also include expenses of any action, suit or other proceedings in which or in relation to which Quadravest is entitled to indemnity by the Company. The Company will also be responsible for all commissions and other costs of Portfolio transactions.

FUND GOVERNANCE

The Board of Directors has overall responsibility for the Company's corporate governance, as with all corporations. Three of the six directors of the Company are neither officers, directors or employees of Quadravest. The auditor is independent of the Company and Quadravest, as are Computershare and RBC Trust.

Independent Review Committee

In accordance with the requirements of National Instrument 81-107 *Independent Review Committee for Investment Funds* ("NI 81-107"), Quadravest has established an independent review committee ("IRC") consisting of Messrs. Thornhill and Steep, two of the independent directors of the Company, and Mr. Gordon A. M Currie, who acts as the chair of the IRC. Quadravest has established a single IRC which is responsible for all of the public investment funds which it manages.

Mr. Currie is the Executive Vice President, Secretary and General Counsel of George Weston Limited, which he joined in 2005. Prior to that, he was the General Counsel of Direct Energy, the North American subsidiary of Centrica plc. Prior to that, he was a partner at Blake, Cassels & Graydon LLP, specializing in securities law, having joined the firm in 1983. Mr. Thornhill is currently the President of William C. Thornhill Consulting Inc. Until July 2005, he was the Vice-Chairman of Quadravest. Prior to joining Quadravest, Mr. Thornhill spent over 30 years in the financial services business and held a number of senior positions at a major Canadian trust company including Executive Vice-President, Products, Senior Vice-President, Finance, and Vice-President, Treasury and Corporate Investments. Mr. Steep is currently the President of S Factor Consulting Inc. Prior to retiring in 2002, Mr. Steep spent over 30 years in the financial services business and retired as a Senior Vice-President at a major Canadian chartered bank.

Under NI 81-107, Quadravest must refer conflict of interest matters for review or approval to the IRC, and imposes obligations upon Quadravest to establish written policies and procedures for dealing with conflict of interest matters, to maintain records in respect of these matters and to provide assistance to the IRC in carrying out its functions. Each of the three executive officers of Quadravest work with the IRC in respect of these matters.

The IRC conducts regular assessments and provides reports to Quadravest and to Shareholders in respect of its functions. Annual reports are filed on SEDAR and posted on the Company's website. Upon request made by a Shareholder, the Company will deliver a copy of the most recent of such annual reports of the IRC to such Shareholder without charge.

Members of the IRC currently receive compensation of \$15,000 per annum (\$25,000 per annum for the chair of the IRC) plus reimbursement of expenses. Annual compensation is apportioned among

the various funds for which the IRC acts, including the Company, in QuadraVest's discretion. During the fiscal year of the Company ended November 30, 2016, \$4,268 of such compensation in the aggregate was allocated to the Company. During such period, no reimbursement of expenses was made to the IRC members, and there was no change in the composition of the IRC during this period.

Use of Derivatives

Derivatives are used by the Company, principally exchange-traded options which are used in connection with the Company's covered call option writing program. They are not used for speculative purposes or for leverage. Derivatives must be used in compliance with the detailed rules in NI 81-102 which are designed to minimize counterparty risk and to ensure that the derivatives use is not speculative or involve the Company in leverage. The effective derivatives exposure of the Company, if any, is monitored by QuadraVest on an on-going basis and any margin required in connection with the Company's derivatives positions is held by, and derivatives trading is undertaken with, independent third party organizations in compliance with the requirements of NI 81-102.

Voting of Portfolio Securities

Under the proxy voting policies and procedures adopted by the Company, QuadraVest is required to vote (or decide to refrain from voting) all shares or other voting securities of the Company in accordance with its best judgement in this regard; provided that QuadraVest receives the proxy and related materials from the issuer or otherwise in sufficient time to cast such vote. QuadraVest will consider each such proposal on its merits in light of the best interests of the Company and its Shareholders. In order to aid in the evaluation process for each proxy proposal, QuadraVest subscribes to the research services of Institutional Shareholder Services, a leading provider of proxy analysis and recommendations.

Where the custodian must vote such securities in accordance with the instructions of QuadraVest in this regard, QuadraVest shall ensure that instructions are provided to the custodian in accordance with its corporate action requirements in this regard.

QuadraVest will maintain a proxy voting record which includes, each time the Company receives proxy voting materials, the name of the issuer in question; the stock exchange on which the securities are listed and the ticker symbol for such securities; the CUSIP number for the securities; the meeting date and whether the meeting was called by management or otherwise; a brief identification of the matters to be voted on at the meeting; whether, and if so how, the Company voted on such matters; and whether the votes cast by the Company were for or against the recommendations of management of the issuer.

The Company prepares by August 31 in each year a proxy voting record for the one-year period ending on June 30 of that year and posts such record to its website. Upon request made by a Shareholder by calling 1-877-478-2372 or writing to the Company at Investor Relations, TD North Tower, 77 King Street West, P.O. Box 341, Toronto, Ontario M5K 1K7, the Company will deliver a copy of its proxy voting record, or of its policies and procedures with respect to proxy voting, to such Shareholder without charge.

Short-Term Trading

Because the Preferred Shares and the Class A Shares are listed on the TSX and are not issued and redeemed like a conventional mutual fund, the Company has no need of, and therefore has not developed, any policies with respect to the short-term trading by investors in those Shares or entered into any arrangements with others to permit short term trading.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Blake, Cassels & Graydon LLP, counsel to the Company, the following is a summary of the principal Canadian federal income tax considerations generally relevant to investors who, at all relevant times and for purposes of the Tax Act, are resident in Canada, deal at arm's length with the Company and are not affiliated with the Company, and hold their Preferred Shares and Class A Shares as capital property. Certain investors who might not otherwise be considered to hold their Preferred Shares or Class A Shares as capital property may, in certain circumstances, be entitled to make an irrevocable election pursuant to subsection 39(4) of the Tax Act, the effect of which is to deem such Preferred Shares or Class A Shares and any other "Canadian security", as defined in the Tax Act, owned by such investor in the taxation year in which the election is made and in all subsequent taxation years, to be capital property.

This summary is based upon the facts set out in this Annual Information Form, the current provisions of the Tax Act and the regulations thereunder, and counsel's understanding of the current administrative policies and assessing practices of the Canada Revenue Agency ("CRA") made publicly available in writing prior to the date hereof, and relies as to certain factual matters on certificates of an officer of the Company and Quadravest. This summary also takes into account specific proposals to amend the Tax Act announced prior to the date hereof by or on behalf of the Minister of Finance (Canada) (the "Proposed Amendments") and assumes that the Proposed Amendments will be enacted as proposed. No assurances can be given that the Proposed Amendments will become law.

This summary is based on the assumptions that:

- (a) the Preferred Shares and the Class A Shares will at all times be listed on a designated stock exchange in Canada (which currently includes the TSX);
- (b) the Company was not established and will not be maintained primarily for the benefit of non-residents of Canada;
- (c) the issuers of the securities held in the Portfolio will not be foreign affiliates of the Company or any Shareholder;
- (d) the investment objectives and restrictions applicable to the Company will at all relevant times be as set out in this Annual Information Form and that the Company will at all times comply with such investment objectives and restrictions; and
- (e) the Company does not and will not invest in or hold (i) a share of, an interest in, or a debt of a non-resident entity, an interest in or a right or option to acquire such a share, interest or debt or an interest in a partnership which holds such a share, interest or debt that would cause the Company (or partnership) to include amounts in income under section 94.1 of the Tax Act, (ii) securities of a non-resident trust other than an "exempt foreign trust" as defined in subsection 94(1) of the Tax Act, or (iii) an interest in a trust that would require the Company to report income in connection with such interest pursuant to the rules in section 94.2 of the Tax Act.

This summary is not exhaustive of all possible federal income tax considerations and does not take into account or anticipate any changes in law, administrative policy or assessing practice, whether by legislative, governmental or judicial action, other than the Proposed Amendments. This summary does not deal with foreign, provincial or territorial income tax considerations, which

may differ from the federal considerations. This summary does not address the deductibility of interest on any funds borrowed by an investor to purchase Preferred Shares or Class A Shares.

This summary does not apply to an investor (i) that is a “financial institution” as defined in section 142.2 of the Tax Act, (ii) an interest in which is a “tax shelter investment” as defined in subsection 143.2(1) of the Tax Act, (iii) which makes or has made a functional currency reporting election pursuant to section 261 of the Tax Act, or (iv) which enters into a “derivative forward agreement” (a “DFA”), as such term is defined in the Tax Act with respect to the purchase or sale of Preferred Shares or Class A Shares.

This summary is of a general nature only and does not constitute legal or tax advice to any particular investor. Investors are advised to consult their own tax advisors with respect to their individual circumstances.

Status of the Company

The Company qualifies, and intends at all relevant times to qualify, as a “mutual fund corporation” as defined in the Tax Act.

Tax Treatment of the Company

As a mutual fund corporation, the Company is entitled in certain circumstances to a refund of tax paid by it in respect of its net realized capital gains. The amount of the available refund to the Company in any taxation year is determined by a formula which is based in part on (i) the amount of the capital gains dividends (described below) paid by the Company to Shareholders, and (ii) the amount paid by the Company to Shareholders on the redemption of Shares (“capital gains redemptions”). Also, as a mutual fund corporation, the Company maintains a capital gains dividend account in respect of capital gains realized by the Company and from which it may elect to pay dividends (“capital gains dividends”) which are treated as capital gains in the hands of Shareholders (see “*Canadian Federal Income Tax Considerations — Tax Treatment of Shareholders*” below). In certain circumstances where the Company has recognized a capital gain in a taxation year on which tax would be payable by the Company, it may elect not to pay capital gains dividends in that taxation year in respect thereof and instead pay refundable capital gains tax, which may in the future be fully or partially refundable upon the payment of sufficient capital gains dividends and/or capital gains redemptions.

The Company will be required to include in computing its income for a taxation year all dividends received in the year. In computing its taxable income, the Company will generally be entitled to deduct all taxable dividends received on shares of taxable Canadian corporations (which include the Portfolio Companies). Dividends received by the Company on other shares will, however, be included in computing the income of the Company, and will not be deductible in computing its taxable income.

The Company is a “financial intermediary corporation” (as defined in the Tax Act) and, as such, is not subject to tax under Part IV.1 of the Tax Act on dividends received by the Company nor is it generally liable to tax under Part VI.1 of the Tax Act on dividends paid by the Company on “taxable preferred shares” (as defined in the Tax Act). As a mutual fund corporation (which is not an “investment corporation” as defined in the Tax Act), the Company will generally be subject to a refundable tax of 38 ¹/₃% under Part IV of the Tax Act on taxable dividends received during the year to the extent such dividends are deductible in computing the taxable income of the Company for the taxation year. This tax is fully refundable upon payment of sufficient dividends other than capital gains dividends (“Ordinary Dividends”) by the Company.

The Company has purchased and will purchase shares in the Portfolio with the objective of earning dividends thereon over the life of the Company, and intends to treat and report transactions undertaken in respect of such shares on capital account. Generally, the Company will be considered to hold such shares on capital account unless the Company is considered to be trading or dealing in securities or otherwise carrying on a business of buying and selling securities or the Company has acquired the securities in a transaction or transactions considered to be an adventure or concern in the nature of trade. The Company has advised counsel that it has elected in accordance with the Tax Act to have each of its “Canadian securities” (as defined in subsection 39(6) of the Tax Act) treated as capital property.

In computing the adjusted cost base of any particular security held by the Company, the Company will generally be required to average the cost of that security with the adjusted cost base of all other identical securities owned by the Company and held as capital property.

A loss realized by the Company on a disposition of capital property will be a suspended loss for purposes of the Tax Act if the Company, or a person affiliated with the Company, acquires a property (a “substituted property”) that is the same or identical to the property disposed of, within 30 days before and 30 days after the disposition and the Company, or a person affiliated with the Company, owns the substituted property 30 days after the original disposition. If a loss is suspended, the Company cannot deduct the loss from the Company’s capital gains until the substituted property is sold and is not reacquired by the Company, or a person affiliated with the Company, within 30 days before and after the sale.

The Company will write covered call options with the objective of increasing the yield on the Portfolio beyond the dividends received on the common shares in the Portfolio. In accordance with CRA’s published administrative practice, a transaction undertaken by the Company in respect of such options will be treated and reported for purposes of the Tax Act on capital account, unless such transaction is considered to be a DFA. In general, the writing of a covered call option by the Company in the manner described in “*Name, Formation and History of the Company – Investment Objectives*” above is not expected to constitute a DFA. It is not clear whether the writing of covered calls, if coupled with certain other transactions, could be considered to be DFAs.

Quadravest and the Company have advised counsel that the Company will not enter into a DFA the effect of which would be to materially increase the income tax payable by the Company (taking into account all DFAs entered into).

Premiums received on call options written by the Company (to the extent such call options relate to securities actually owned by the Company at the time the option is written and such securities are held on capital account as discussed above) will constitute capital gains of the Company in the year received, and gains or losses realized upon dispositions of securities owned by the Company (whether upon the exercise of call options written by the Company or otherwise) will generally constitute capital gains or capital losses of the Company in the year realized. Where a call option is exercised the premium received by the Company for the option will be included in the proceeds of disposition of the securities sold pursuant to the option and such premium will not give rise to a capital gain at the time the option is written.

If the Company sells a security under a DFA, the amount by which the proceeds of disposition exceed (or are less than) the fair market value of the security at the time the DFA is entered into will be recognized as ordinary income (or loss) realized upon the disposition of the security. The adjusted cost base to the Company of any such security will be increased (or decreased) by the amount of income (or loss) recognized because of the DFA, and the Company’s capital gain (or capital loss) will be adjusted

accordingly. The deductibility of any such loss realized on the disposition of a security under a DFA may be restricted depending upon the particular circumstances.

Generally, the Company will include gains and deduct losses on income account in connection with investments made through derivative securities (except where such derivatives are used to hedge Portfolio securities held on capital account and provided there is sufficient linkage), and will recognize such gains or losses for tax purposes at the time they are realized by the Company. The Company may also use derivative instruments for hedging purposes. Gains or losses realized on such derivatives hedging Portfolio securities held on capital account will be treated and reported for tax purposes on capital account (subject to adjustment for any ordinary income or loss recognized from the disposition of property pursuant to a derivative that constitutes a DFA), provided there is sufficient linkage.

To the extent that the Company earns net income (other than taxable dividends from taxable Canadian corporations and taxable capital gains) such as interest, dividends from corporations other than taxable Canadian corporations or certain gains from the disposition of a security under a DFA, the Company will be subject to income tax on such income and no refund will be available in respect thereof.

Tax Treatment of Shareholders

Shareholders must include in income Ordinary Dividends received from the Company. For individual Shareholders, Ordinary Dividends will be subject to the usual gross-up and dividend tax credit rules with respect to taxable dividends paid by taxable Canadian corporations under the Tax Act. An enhanced gross-up and dividend tax credit is available on “eligible dividends” received or deemed to be received from a taxable Canadian corporation which are so designated by the corporation. Ordinary Dividends received by a corporation other than a “specified financial institution” (as defined in the Tax Act) will generally be deductible in computing its taxable income. In certain circumstances, subsection 55(2) of the Tax Act will treat a taxable dividend received by a Shareholder that is a corporation as proceeds of disposition or a capital gain. Shareholders that are corporations should consult their own tax advisors having regard to their own circumstances.

In the case of a Shareholder that is a specified financial institution, Ordinary Dividends received on a particular class of Shares will be deductible in computing its taxable income only if either (a) the specified financial institution did not acquire the Shares in the ordinary course of its business; or (b) at the time of the receipt of the dividends by the specified financial institution the Shares of that class are listed on a designated stock exchange in Canada, and dividends are received by (i) the specified financial institution, or (ii) the specified financial institution and persons with whom it does not deal at arm’s length (within the meaning of the Tax Act), in respect of not more than 10% of the issued and outstanding Shares of that class. For purposes of the exception in (b), a beneficiary of a trust will be deemed to receive the amount of any dividend received by the trust and designated to that beneficiary, effective at the time the dividend was received by the trust, and a member of a partnership will be considered to have received that partner’s share of a dividend received by the partnership, effective at the time the dividend was received by the partnership.

Ordinary Dividends on Preferred Shares will generally be subject to a 10% tax under Part IV.1 of the Tax Act when such dividends are received by a corporation (other than a “private corporation” or a “financial intermediary corporation”, as defined in the Tax Act) to the extent that such dividends are deductible in computing the corporation’s taxable income. Such corporations should consult their own tax advisors with respect to whether Ordinary Dividends on the Class A Shares are subject to Part IV.1 tax when received by such corporations.

A Shareholder which is a private corporation for purposes of the Tax Act, or any other corporation controlled directly or indirectly by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) may be liable to pay a 38 ¹/₃% refundable tax under Part IV of the Tax Act on Ordinary Dividends received on Class A Shares or Preferred Shares, to the extent that such dividends are deductible in computing the corporation's taxable income. Where Part IV.1 tax also applies to an Ordinary Dividend received by a particular corporation, the rate of Part IV tax payable by such corporation on such dividend is reduced by 10%. The tax payable by a Shareholder under Part IV of the Tax Act may be refunded to the extent the Shareholder pays sufficient taxable dividends.

The amount of any capital gains dividend received by a Shareholder from the Company will be considered to be a capital gain of the Shareholder from the disposition of capital property in the taxation year of the Shareholder in which the capital gains dividend is received.

The current policy of the Company is to pay monthly distributions and, in addition, to pay a special year-end dividend to holders of Class A Shares where if any amounts remain available for the payment of dividends (provided that no special year-end dividends will be paid if after payment of such a dividend the net asset value per Unit would be less than \$25.00). Therefore, a person acquiring Shares may become taxable on distributions derived from income and capital gains of the Company that accrued before such person acquired such Shares and on realized capital gains that have not been distributed before such time.

The Company may make returns of capital in respect of the Class A Shares. A return of capital in respect of a Class A Share will not be included in the income of the holder of the Class A Share, but will reduce the adjusted cost base of such Class A Share. To the extent that the adjusted cost base of a Class A Share would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Shareholder from the disposition of the Class A Share and the adjusted cost base will be increased by the amount of such deemed capital gain.

Upon the redemption, retraction or other disposition of a Share, a capital gain (or a capital loss) will be realized by the Shareholder to the extent that the proceeds of disposition of the Share exceed (or are less than) the aggregate of the adjusted cost base of the Share and any reasonable costs of disposition. If the Shareholder is a corporation, any capital loss arising on the disposition of a Share may in certain circumstances be reduced by the amount of any Ordinary Dividends received on the Share. Analogous rules apply to a partnership or trust of which a corporation, partnership or trust is a member or beneficiary. For purposes of computing the adjusted cost base of each Share of a particular class, a Shareholder must average the cost of such Share with the adjusted cost base of any Shares of that class already held as capital property.

One-half of a capital gain is included in computing income as a taxable capital gain and one-half of a capital loss must generally be deducted against taxable capital gains to the extent and under the circumstances prescribed in the Tax Act. A Shareholder that is a Canadian-controlled private corporation will be subject to an additional refundable tax on its "aggregate investment income" (as defined in the Tax Act), which includes an amount in respect of taxable capital gains. The additional tax is refundable to the extent the Shareholder pays sufficient taxable dividends.

Individuals (other than certain trusts) realizing net capital gains or receiving dividends may be subject to an alternative minimum tax under the Tax Act.

INTERNATIONAL INFORMATION REPORTING

Pursuant to the Canada-United States Enhanced Tax Information Exchange Agreement entered into between Canada and the United States on February 5, 2014 (the “IGA”) and related Canadian legislation in the Tax Act, the dealers through which Shareholders hold their Shares are required to report certain information with respect to Shareholders who are U.S. residents and U.S. citizens (including U.S. citizens who are residents and/or citizens of Canada), and certain other “U.S. Persons”, as defined under the IGA (excluding 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), to the CRA. The CRA is expected to provide the information to the U.S. Internal Revenue Service.

Canada will also implement the OECD Multilateral Competent Authority Agreement and Common Reporting Standard (“CRS”) which provides for the automatic exchange of certain tax information. The CRS will be effective in Canada as of July 1, 2017 with the first exchanges of financial account information beginning in 2018. Affected investors will be required to provide certain information including their tax identification numbers for the purpose of such information exchange.

MATERIAL CONTRACTS

The following contracts can reasonably be regarded as material to holders of Preferred Shares and Class A Shares:

- (a) the articles of incorporation of the Company, as amended, described under “*Name, Formation and History of the Company*”;
- (b) the Management Agreement described under “*Management of the Company – The Manager*”;
- (c) the Investment Management Agreement described under “*Management of the Company – The Investment Manager – Investment Management Agreement*”;
- (d) the Recirculation Agreement described under “*Description of the Shares of the Company – Resale of Shares Tendered for Retraction*”; and
- (e) the Custodian Agreement described under “*Registrar and Transfer Agent, Custodian and Auditor*”.

Copies of the foregoing agreements have been filed on SEDAR at www.sedar.com.

ADDITIONAL INFORMATION – RISK FACTORS

The following are certain considerations relating to an investment in Preferred Shares or Class A Shares which existing or prospective investors should consider. There can be no assurance that the Company will be successful in meeting its dividend and capital repayment objectives, and the Preferred Shares and Class A Shares may trade in the market at a premium or discount to their proportionate shares of the Company’s net asset value.

Interest Rate Fluctuations

It is anticipated that the market price of the Preferred Shares and Class A Shares will, at any time, be affected by the level of interest rates prevailing at such time. A rise in interest rates may have a negative effect on the market price of the Preferred Shares and Class A Shares.

Net Asset Value and Distributions

The net asset value of the Company and the funds available for distribution to Shareholders will vary, among other things, according to the value of the common shares in the Portfolio (which in turn will be influenced by factors which are not within the control of the Company, including the performance of the Portfolio Companies, their dividend payment policies and financial market and economic conditions generally), the dividends received by the Company on the shares in the Portfolio, and the level of option premiums received. There can be no assurance that the Company will be able to achieve its objectives of paying monthly dividends on the Preferred Shares or the Class A Shares. A substantial drop in the Canadian or United States equities markets could be expected to have a negative effect on the Company. In addition, a decline in the market price of the shares in the Portfolio may adversely affect the rating on the Preferred Shares, which in turn may have an adverse impact on the market price or demand for such Shares. If such a drop were to lead to a significant decline in the value of the Portfolio, the Company could be prohibited from paying regular monthly or special annual dividends on the Class A Shares (see “*Description of the Shares of the Company – Certain Provisions of the Class A Shares*”), which in turn may have an adverse impact on the market price or demand for such Shares.

Use of Options

The Company is subject to the full risk of its investment position in the shares of the Portfolio Companies, including those shares that are subject to outstanding call options, should the market price of the common shares decline. In addition, the Company will not participate in any gain on the common shares that are subject to outstanding call options above the strike price of the options.

There can be no assurance that a liquid exchange or over-the-counter market will exist to permit the Company to write covered call options on desired terms or to close out option positions should Quadravest desire to do so. In purchasing call options, the Company is subject to the credit risk that its counterparty (whether a clearing corporation in the case of exchange traded instruments, or other third party in the case of over-the-counter instruments) may be unable to meet its obligations. The ability of the Company to close out its positions may also be affected by exchange-imposed daily trading limits on options. If the Company is unable to repurchase a call option which is in-the-money, it will be unable to realize its profits or limit its losses until such time as the option becomes exercisable or expires.

Reliance on the Investment Manager

Quadravest manages the Portfolio in a manner consistent with the investment objectives, strategy and criteria of the Company. The officers of Quadravest who will be primarily responsible for the management of the Portfolio have extensive experience in managing investment portfolios. There is no certainty that such individuals will continue to be employees of Quadravest throughout the term of the Company.

Conflicts of Interest

Quadravest is engaged in a variety of management, investment management and other business activities. The services of Quadravest under the Management Agreement and Investment Management

Agreement are not exclusive and nothing in those agreements prevents Quadravest or any of its affiliates from providing similar services to other investment funds and other clients (whether or not their investment objectives, strategies and policies are similar to those of the Company) or from engaging in other activities. Quadravest's investment decisions for the Company will be made independently of those made for its other clients and independently of its own investments. However, on occasion, Quadravest may make the same investment for the Company and for one or more of its other clients. If the Company and one or more of the other clients of Quadravest are engaged in the purchase or sale of the same security, the transactions will be effected on an equitable basis.

Class A Shares a Leveraged Investment

Holders of the Class A Shares enjoy a form of leverage in that any capital appreciation in the shares of the Portfolio Companies after payment of any accrued and unpaid distributions on the Preferred Shares, redemption or retraction value of the Preferred Shares and expenses are for the benefit of the holders of the Class A Shares. In the event of a decrease in the value of the Company's underlying investment in the shares of the Portfolio Companies, this leverage works to the disadvantage of holders of the Class A Shares, with the result that any net capital loss incurred by the Company on its investment in the shares of the Portfolio Companies is effectively first for the account of the holders of the Class A Shares. If the net asset value per Unit is less than or equal to \$10.00 plus accrued and unpaid distributions on the Preferred Shares on the Termination Date, the Class A Shares will have no value.

Treatment of Proceeds of Disposition and Option Premiums

In determining its income for tax purposes, the Company will treat gains and losses realized on the disposition of securities in the Portfolio, option premiums received on the writing of covered call options and any gains and losses sustained on closing out options as capital gains and capital losses in accordance with CRA's published administrative practice (subject to adjustment for any ordinary income or loss recognized from the disposition of property pursuant to a derivative that constitutes a DFA, as described under "*Canadian Federal Income Tax Considerations – Tax Treatment of the Company*"). CRA's practice is not to grant advance income tax rulings on the character of items as capital or income and no advance income tax ruling has been applied for or received from CRA.

If, contrary to CRA's published administrative practice, some or all of the transactions undertaken by the Company in respect of options and securities in the Portfolio were treated on income rather than capital account, after-tax returns to holders of Class A Shares and Preferred Shares could be reduced and the Company may be subject to non-refundable income tax in respect of income from such transactions and the Company may be subject to penalty taxes in respect of excessive capital gains dividend elections.

Applicability of Mutual Fund Rules

Although the Company is considered to be a mutual fund under the securities legislation of certain provinces of Canada, it has been granted an exemption from certain requirements of NI 81-102, and NI 81-106, and so is not subject to all the same rules as conventional public mutual funds.

Mutual Fund Corporation Status

The tax treatment of the Company and its Shareholders depends in part upon the Company being a "mutual fund corporation" for tax purposes. If the Company ceases to qualify as a mutual fund corporation under the Tax Act, such tax treatment would be materially and adversely different in certain respects.

Suspension of Retractions

The Company may suspend the retraction of Preferred Shares and Class A Shares or payment of retraction proceeds during any period when normal trading is suspended on any stock exchange within or outside Canada on which securities of the Company are listed which represent more than 50% by value of the total assets of the Company without allowance for liabilities or, with the prior permission of the Ontario Securities Commission, for any period not exceeding 120 days during which the Company determines that conditions exist which render impractical the sale of assets of the Company or which impair the ability of the Company to determine the value of the assets of the Company. In the event of a suspension of retractions, holders of Preferred Shares and Class A Shares would experience reduced liquidity. See “*Description of the Shares of the Company – Suspension of Retractions and Redemptions*”.

Effects of Substantial Retractions

If holders of a substantial number of Preferred Shares or Class A Shares exercise their retraction rights, the number of Preferred Shares and Class A Shares outstanding and the net assets of the Company could be reduced, with the effect of decreasing the liquidity of the Preferred Shares and Class A Shares in the market and increasing the management expense ratio of the Company.

CANADIAN BANC CORP.

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Additional information about the Company is available in its management reports of fund performance and financial statements. These documents are available on the Company's website at www.primerateplus.com. These documents and other information about the Company, such as information circulars and material contracts, are also available through SEDAR (the System for Electronic Document Analysis and Retrieval) at www.sedar.com, or from your dealer.

