



Flaherty & Crumrine

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**INVESTMENT GRADE  
FIXED INCOME FUND**

## **ANNUAL INFORMATION FORM**

**UNITS  
WARRANTS**

**March 23, 2009**

## **FORWARD-LOOKING STATEMENTS**

Certain statements contained in this annual information form constitute forward-looking statements. The use of any of the words “anticipate”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “should”, “believe” and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Manager believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this annual information form should not be unduly relied upon. These statements speak only as of the date of this annual information form.

In particular, this annual information form may contain forward-looking statements pertaining to distributable cash and Distributions. The actual results could differ materially from those anticipated in these forward-looking statements as a result of, among other things, the risk factors set out in this annual information form. The Manager does not undertake any obligation to publicly update or revise any forward-looking statements.

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## GLOSSARY OF TERMS

In this Annual Information Form, the following terms shall have the meanings set forth below, unless otherwise indicated.

**“Advisory Services Agreement”** means the advisory services agreement dated as of December 15, 2004 among the Fund, the Manager and the Principal Investment Advisor, as it may be amended from time to time.

**“Additional Subscription Privilege”** means the subscription privilege granted to all holders of Warrants that have subscribed for Units pursuant to the offering of Warrants.

**“Annual Redemption Date”** means the second last Business Day of November in each year.

**“Brompton”** means the Brompton group of companies.

**“Brompton Funds”** means Brompton Corp. and its wholly owned subsidiary Brompton Funds Management Limited which acts as manager of the Fund. Brompton Corp. is in the business of managing investment funds.

**“Business Day”** means any day except Saturday, Sunday, a statutory holiday in Toronto, Ontario or any other day on which the TSX is not open for trading.

**“Cash and Cash Equivalents”** means:

- (i) obligations issued or guaranteed by the Government of Canada or any province of Canada or the Government of the United States or any U.S. State or any agency or instrumentality thereof with less than twelve months to maturity;
- (ii) term deposits, guaranteed investment certificates, certificates of deposit or bankers’ acceptances of or guaranteed by any chartered bank or other financial institution, the short-term debt or deposits of which have been rated at least Investment Grade; and
- (iii) commercial paper rated at least Investment Grade;

in each case either maturing within 365 days after the date of acquisition or for which the Manager or Portfolio Manager believes that there will be a liquid market for the resale thereof within such 365-day period.

**“CDS”** means CDS Clearing & Depository Services Inc.

**“CDS Participant”** means a participant in CDS.

**“Closing Market Price”** means the closing price of the Units on the TSX (or such other stock exchange on which the Units are listed, if the Units are no longer listed on the TSX) or, if there was no trade on the relevant Monthly Redemption Date, the average of the last bid and last asking prices of the Units on the TSX (or other stock exchange on which the Units are listed, if the Units are no longer listed on the TSX).

**“CRA”** means the Canada Revenue Agency.

“**Custodian**” means RBC Dexia Investor Services Trust in its capacity as custodian under the Custodian Agreement, as appointed from time to time by the Manager.

“**Custodian Agreement**” means the custodian agreement entered into by the Manager, on behalf of the Fund, and The Royal Trust Company dated as of December 3, 2004 and assigned by The Royal Trust Company to the Custodian as of December 23, 2005, as it may be amended from time to time.

“**Declaration of Trust**” means the declaration of trust governing the Fund, as it may be amended and amended and restated from time to time, described in section 1.1 of this Annual Information Form.

“**Distribution(s)**” means the cash and *in specie* distributions which are paid by the Fund to Unitholders.

“**Distribution Date**” means the date on which cash Distributions are paid by the Fund, such date to be no later than the tenth Business Day after the applicable Record Date.

“**Exercise Period**” means the period beginning at market open (Toronto time) on February 11, 2009 and ending at 5:00 pm (Toronto time) on September 15, 2009.

“**Extraordinary Resolution**” means a resolution passed by the affirmative vote of at least 66 <sup>2</sup>/<sub>3</sub>% of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of considering such resolution.

“**Extraordinary Resolution of Warrantholders**” means a resolution proposed at a meeting of holders of Warrants at which there are present in person or by proxy holders of Warrants entitled to acquire at least 25% of the aggregate number of Units which could be acquired pursuant to the then outstanding Warrants and passed by the affirmative votes of holders of Warrants entitled to acquire not less than 66 <sup>2</sup>/<sub>3</sub>% of the aggregate number of Units which could be acquired pursuant to all of the then outstanding Warrants represented at the meeting.

“**Fund**” means Flaherty & Crumrine Investment Grade Fixed Income Fund.

“**Fund Investment**” means an investment then held by, or a derivative or other instrument then entered into by, the Fund and “**Fund Investments**” means more than one Fund Investment taken collectively.

“**Fund Property**” means the property and assets of the Fund.

“**Income Tax Act**” means the *Income Tax Act* (Canada), as amended, or successor statutes, and shall include regulations promulgated thereunder.

“**Investment Grade**” in respect of a security means a security, which has at least one of the following ratings: (i) at least BBB- by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc.; (ii) at least Baa3 by Moody’s Investor Services, Inc.; (iii) at least BBB- by Fitch Ratings; or (iv) the equivalent rating by another nationally recognized credit rating organization.

“**Investment Objectives**” means the investment objectives of the Fund as set forth in the Declaration of Trust as described in section 1.1.1 of this Annual Information Form.

“**Investment Restrictions**” means the investment restrictions of the Fund as set forth in the Declaration of Trust, including without limitation those described in section 2.0 of this Annual Information Form.

**“Investment Strategies”** means the investment strategies as set forth in the Declaration of Trust described in section 1.1.2 of this Annual Information Form.

**“IRC”** means the Independent Review Committee established by the Manager for the Fund pursuant to NI 81-107.

**“Loan Facility”** means any loan facility entered into between the Manager, on behalf of the Fund and any lender, for purposes of the Fund, as described in section 14.1 of this Annual Information Form.

**“Management Agreement”** means the management agreement dated as of November 25, 2004 between the Manager and the Trustee, on behalf of the Fund, as amended and as it may be amended from time to time.

**“Management Fee”** means the management fee payable to the Manager pursuant to the Management Agreement and the Declaration of Trust described in section 8.1.1 of this Annual Information Form.

**“Manager”** means the manager and administrator of the Fund, namely Brompton Funds Management Limited, or if applicable its successor.

**“Market Price”** means the weighted average trading price of the Units on the TSX (or such other stock exchange on which the Units are listed, if the Units are no longer listed on the TSX) for the 10 trading days immediately preceding the relevant Distribution Date or Monthly Redemption Date, as applicable.

**“Monthly Redemption Date”** means the second last Business Day of any month, excluding the month of November in any year.

**“Net Asset Value”** means the net asset value of the Fund, as determined in accordance with the Declaration of Trust as described in section 5.0 of this Annual Information Form.

**“Net Asset Value per Unit”** means the Net Asset Value divided by the total number of Units outstanding on any Valuation Date.

**“Net Capital Gains”** of the Fund for a taxation year means the amount, if any, by which:

- (i) the capital gains realized by the Fund in the taxation year;

exceeds the aggregate of:

- (ii) the capital losses incurred by the Fund in the taxation year;
- (iii) the unapplied capital losses incurred by the Fund in the preceding taxation years, to the extent that they may be, and are applied against capital gains realized by the Fund in the taxation year; and
- (iv) any Net Loss of the Fund for the year and, if the Trustee so determines, any unapplied non-capital losses (as defined in the Income Tax Act) of the Fund for the preceding years of the Fund, in each case multiplied by the reciprocal of the applicable fraction in paragraph 38(a) of the Income Tax Act.

For this purpose, “capital gains” and “capital losses” shall be computed in accordance with the provisions of the Income Tax Act.

**“Net Income”** or **“Net Loss”** of the Fund for a taxation year means the amount, if any, by which the income or loss of the Fund for such taxation year computed in accordance with the provisions of the Income Tax Act, other than paragraph 82(1)(b) and subsection 104(6) thereof and disregarding any designations made by the Fund under subsection 104(19) of the Income Tax Act, without reference to the Fund’s “capital gains” or “capital losses” (as those terms are defined in the Income Tax Act) for the taxation year, exceeds the non-capital losses of the Fund (as defined in the Income Tax Act) for any preceding taxation years of the Fund, to the extent that they may be, and are deducted in computing taxable income of the Fund for such taxation year for the purposes of the Income Tax Act.

**“NI 81-107”** means National Instrument 81-107, *Independent Review Committee for Investment Funds* of the Canadian Securities Administrators (or any successor policy, rule or national instrument), as it may be amended from time to time.

**“Ordinary Resolution”** means a resolution passed by the affirmative vote of at least 50% of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of the considering such resolution.

**“Portfolio”** means the Portfolio of Fund Investments held by the Fund.

**“Portfolio Manager”** means Flaherty & Crumrine Incorporated, or such other investment advisor and Portfolio manager appointed from time to time by the Manager on behalf of the Fund or by the Principal Investment Advisor to make investment decisions concerning Fund Investments.

**“Portfolio Management Agreement”** means the portfolio management agreement dated as of December 15, 2004 between the Manager, on behalf of the Fund, the Manager, the Principal Investment Advisor and the Portfolio Manager respecting the management of Fund Investments, as it may be amended from time to time.

**“Principal Investment Advisor”** means Brompton Capital Advisors Inc., or such other investment advisor as may be appointed from time to time by the Manager on behalf of the Fund.

**“Record Date”** means the last Business Day of each calendar month prior to the Termination Date.

**“Redemption Date”** means an Annual Redemption Date or a Monthly Redemption Date, as the case may be.

**“Redemption Payment Date”** means the date on or before the tenth Business Day of the month following the Redemption Date.

**“S&P”** means Standard & Poor’s, a division of The McGraw-Hill Companies Inc.

**“Service Fee”** means the fee required to be paid by the Fund to the Manager, who is in turn required to pay such fee in an equivalent amount to dealers, all in accordance with the Declaration of Trust, as described in section 8.1.2 of this Annual Information Form.

**“Special Distribution”** means, with respect to any taxation year of the Fund, the amount, if any, by which the aggregate of the Net Income and Net Capital Gains less any Net Capital Gains the tax on which would be refundable to the Fund in the current year under Part 1 of the Income Tax Act for such taxation year exceeds the aggregate of the Distributions paid or payable by the Fund to Unitholders for such taxation year.

**“Subscription Price”** means \$6.65.

**“Tax Proposals”** means all specific proposals to amend the Income Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof.

**“Termination Date”** means the date the Fund is terminated in accordance with the Declaration of Trust, as described in section 3.4 of this Annual Information Form.

**“Total Assets”** means the aggregate value of the assets of the Fund determined in accordance with the Declaration of Trust as described in section 4.0 of this Annual Information Form.

**“Trustee”** means Computershare Trust Company of Canada, in its capacity as trustee under the Declaration of Trust, or if applicable, its successor.

**“TSX”** means the Toronto Stock Exchange.

**“Unit”** means one transferable, redeemable unit of the Fund, representing an equal, fractional and undivided beneficial interest in the Fund Property net of all liabilities of the Fund. **“Units”** represents more than one transferable, redeemable trust unit of the Fund.

**“Unitholder(s)”** means the registered holder(s) of the Units.

**“Valuation Date”** means, at a minimum, Friday of each week, or if any Friday is not a Business Day, the immediately preceding Business Day, and the last Business Day of each month, and includes any other date on which the Manager elects, in its discretion, to calculate the Net Asset Value and Net Asset Value per Unit.

**“Warrant”** means one transferrable warrant of the Fund issued to Unitholders of record on February 10, 2009 on the terms and conditions of the Warrant Indenture.

**“Warrant Agent”** means Computershare Trust Company of Canada, in its capacity as warrant agent under the Warrant Indenture.

**“Warrant Indenture”** means the warrant indenture dated as of February 10, 2009 between the Manager, on behalf of the Fund, and the Warrant Agent, as it may be amended from time to time.

## **1.0 NAME, FORMATION AND HISTORY**

Flaherty & Crumrine Investment Grade Fixed Income Fund is a closed-end investment trust with a registered office located at Suite 2930, Bay Wellington Tower, Brookfield Place, 181 Bay Street, Toronto, Ontario M5J 2T3. The Fund was established under the laws of the Province of Alberta pursuant to a declaration of trust dated October 29, 2004, and is governed by its amended and restated Declaration of Trust dated November 25, 2004, as amended.

Effective December 31, 2008, Flaherty & Crumrine Investment Grade Preferred Fund completed a merger with the Fund. The merger was approved by unitholders of Flaherty & Crumrine Investment Grade Preferred Fund as required at a special meeting of its unitholders held on December 1, 2008. Pursuant to the merger, unitholders of Flaherty & Crumrine Investment Grade Preferred Fund each received Units of the Fund based on the exchange ratio calculated based on the relative net asset value per unit of each of Flaherty & Crumrine Investment Grade Preferred Fund and the Fund as at the close of business on December 30, 2008.

### **1.1 Declaration of Trust**

#### **1.1.1 Investment Objectives**

The Declaration of Trust provides that the investment objectives of the Fund are:

- (i) to provide Unitholders with a stable stream of monthly Distributions;
- (ii) to mitigate the impact of significant interest rate increases on the value of the Portfolio;
- (iii) to preserve the Net Asset Value per Unit; and
- (iv) to enhance the total return per Unit by actively managing the Portfolio.

#### **1.1.2 Investment Strategy**

The Declaration of Trust provides that the Fund will seek to achieve its Investment Objectives by pursuing investment strategies of:

- (i) investing the Fund Property in an actively managed Portfolio consisting primarily of various corporate debt securities and “hybrid preferred securities” of North American issuers (being securities typically issued by corporations, generally in the form of interest bearing notes or preferred securities, or by an affiliated business trust of a corporation, generally in the form of beneficial interests in subordinated debentures or similarly structured securities);
- (ii) under normal market conditions, employing a hedging strategy which is intended to mitigate the impact of significant interest rate increases on the Net Asset Value of the Portfolio, while permitting it to benefit from declines in interest rates;
- (iii) hedging substantially all of the Portfolio to the Canadian dollar; and
- (iv) investing or using derivative instruments for hedging, investment or leverage purposes, including buying or selling credit derivatives and borrowing or employing other forms of

leverage, including securities lending and repurchase agreements, to enhance the returns of the Portfolio.

### **1.1.3 General**

The Declaration of Trust also provides for the administration of the Fund and governs matters including, without limitation, the powers of the Trustee, the issue and sale of Units, the form and content of Unit certificates, the registration and the transfer of Units, the redemption and repurchase of Units, distributions to Unitholders, the provision of management and administration, portfolio advisory and custodial services to the Fund, the limitation on the liability of the Unitholders, the Trustee, the Manager and other parties and the termination of the Fund.

The Amended and Restated Declaration of Trust dated as of November 25, 2004 was amended as of November 8, 2006 to permit the Manager to allow for the withdrawal of redemption notices prior to a redemption date. The Declaration of Trust was further amended as of December 20, 2006 to permit the Fund to designate as part of the redemption price any capital gains realized by the Fund during the year in which the redemption occurs.

Pursuant to the Declaration of Trust, the Trustee has retained Brompton Funds Management Limited as the Manager of the Fund and the Manager, on behalf of the Fund, has retained Brompton Capital Advisors Inc. as the Principal Investment Advisor of the Fund, RBC Dexia Investor Services Trust as the Custodian of the Fund Property and Flaherty & Crumrine Incorporated as Portfolio Manager of the Fund.

## **2.0 INVESTMENT RESTRICTIONS**

The Fund is not considered to be a mutual fund under the securities legislation of the provinces and territories of Canada. Consequently, the Fund is not subject to the various policies and regulations that apply to conventional mutual funds under such legislation. However, the Fund is subject to certain other requirements and restrictions contained in securities legislation, including National Instrument 81-106 Investment Fund Continuous Disclosure, which governs the continuous disclosure obligations of investment funds, such as the Fund.

The Declaration of Trust sets out the Investment Restrictions to which the Fund is subject. The following Investment Restrictions relate to certain matters arising out of the Income Tax Act and provide that the Fund will not:

- (a) make or hold any investment that would result in the Fund failing to qualify as a “mutual fund trust” for the purposes of the Income Tax Act;
- (b) make or hold any investments that could require the Fund to include any material amount in its income pursuant to proposed sections 94.1 or 94.3 of the Income Tax Act or require the Fund to mark the investment to market in accordance with proposed section 94.2 of the Income Tax Act, or invest in a non-resident trust other than an “exempt foreign trust”, all as set forth in Bill C-10, which was before the 39th Parliament, or pursuant to any amendments to such proposals, subsequent provisions as enacted into law, or successor provisions thereto; or
- (c) make any investments in entities that would be “foreign affiliates” of the Fund for purposes of the Income Tax Act.

The Units and Warrants are qualified investments under the Income Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, registered disability savings plans, deferred profit sharing plans, tax-free savings accounts and registered education savings plans. During 2008, the Fund did not deviate from the rules under the Income Tax Act that apply to the status of the Units and Warrants qualifying for inclusion in such plans, with the exception of tax-free savings accounts, which did not come into effect until January 2009.

### **3.0 DESCRIPTION OF SECURITIES**

#### **3.1 The Units**

The Fund is authorized to issue an unlimited number of a single class of transferable, redeemable units of beneficial interest, each of which represents an equal undivided interest in the net assets of the Fund. Each Unit entitles the holder to the same rights and obligations as a holder of any other Unit and no holder of Units is entitled to any privilege, priority or preference in relation to any other holder of Units. On the redemption of Units, however, the Fund may, in its sole discretion, designate payable to the redeeming Unitholder, as part of the redemption price any capital gain realized by the Fund in the taxation year of the Fund in which the redemption occurred. Each holder of Units is entitled to one vote for each whole Unit held and is entitled to participate equally with respect to any and all Distributions made by the Fund. On termination or liquidation of the Fund, the holders of outstanding Units of record are entitled to receive on a *pro rata* basis all of the assets of the Fund remaining after payment of all debts, liabilities and liquidation expenses of the Fund. The Declaration of Trust permits fractions of Units to be issued which have the same rights, restrictions, conditions and limitations attaching to whole Units in the proportion which they bear to a whole Unit, except that fractional Units do not have the right to vote.

The Units are rated P-2f by S&P. 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 S&P.

The Alberta Legislature passed the Income Trust Liability Act to create a statutory limitation on the liability of unitholders of Alberta trusts providing that notwithstanding any express or implied indemnity of a trustee by a unitholder, a unitholder will not be, as a beneficiary, liable for any act, default, obligation or liability of the trustee that arises after the legislation came into force. The Fund is a reporting issuer in each of the provinces and territories of Canada, and it is governed by the laws of Alberta by virtue of the provisions of the Declaration of Trust.

#### **3.2 Distributions**

Distributions are payable to Unitholders of record on the last Business Day of each calendar month, to be paid no later than 10 Business Days after the applicable Record Date. There can be no assurance that the Fund will be able to achieve its monthly Distribution objective or make such payments in any particular month or months.

The Fund has also adopted a distribution reinvestment plan pursuant to which Distributions paid to Unitholders may be reinvested, automatically on each Unitholders' behalf at the option of such Unitholder, to purchase additional Units in accordance with the plan. Notwithstanding the availability of the plan, all Distributions to non-resident Unitholders are paid in cash and may not be reinvested.

The Fund is subject to tax under Part I of the Income Tax Act on the amount of its income for tax purposes for the year, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amounts paid or payable to Unitholders in the year. Provided the Fund makes Distributions in each year of its Net Income and Net Capital Gains, and provided the Fund deducts in computing its

income the full amount available for deduction in each year, the Fund will not generally be liable for income tax under Part I of the Income Tax Act. In order to ensure this result, the Declaration of Trust provides that, if necessary, a Special Distribution will be automatically payable in each year to Unitholders of record on December 31. The Special Distribution may be necessary where the Fund realizes income for tax purposes which is in excess of the monthly distributions paid or made payable to Unitholders during the year. The Special Distribution may, at the option of the Manager, and subject to compliance with securities laws and the requirements of other regulatory authorities, be satisfied by the issuance of additional Units having a value equal to the amount of the Special Distribution not being satisfied in cash. Unless the Manager otherwise determines, all Special Distributions will be paid in Units. Following such issue of additional Units, the outstanding Units of the Fund will be automatically consolidated on a basis such that the number of consolidated Units (before giving effect to any redemption of Units on such date) is equal to the number of Units outstanding immediately preceding the Special Distribution, except in the case of a non-resident Unitholder if tax was required to be withheld in respect of the distribution. Additional information regarding tax matters is set out in section 11.0.

### **3.3 Amendment of the Declaration of Trust**

#### **3.3.1 Amending of the Declaration of Trust by the Trustee**

The Declaration of Trust provides that the Trustee is entitled to amend the Declaration of Trust without consent of, or notice to, the Unitholders to:

- (i) ensure compliance with applicable laws, regulations or requirements of any governmental authority having jurisdiction over the Fund;
- (ii) maintain the status of the trust as a “mutual fund trust” under the Income Tax Act;
- (iii) make changes or corrections which counsel for the Fund advise are necessary or desirable for the correction of typographical mistakes or are required for the purpose of curing any ambiguity or defective or inconsistent provisions or omissions or manifest error; or
- (iv) provide added protection for Unitholders,

but only if such amendments do not, in the opinion of the Manager, adversely affect the pecuniary value of the interest of the Unitholders or restrict any protection for the trustee or the Manager or increase their respective responsibilities.

#### **3.3.2 Amending of the Declaration of Trust by Unitholders**

The Declaration of Trust provides that except as otherwise required by the Declaration of Trust (which exceptions are summarized below), the Declaration of Trust may be amended by an Ordinary Resolution of the Unitholders.

The Declaration of Trust provides that the following may only be amended provided that Unitholders holding at least 10% of the Units outstanding on the record date of the meeting vote in favour of such Ordinary Resolutions for the following:

- (i) any termination of the Management Agreement other than in circumstances where the Manager has been removed by the Trustee pursuant to the Declaration of Trust or the Management Agreement or the Manager has resigned; and

- (ii) any amendment to the above provision except as otherwise permitted by the Declaration of Trust.

The Declaration of Trust provides that the following may only be undertaken with the approval of Unitholders by an Extraordinary Resolution:

- (i) an amendment to the Declaration of Trust to permit the redemption or retraction of Units at the option of the Unitholder or the Fund, other than as provided for in the Declaration of Trust;
- (ii) the sale of all or substantially all of the assets of the Fund other than in the ordinary course of business;
- (iii) the termination of the Trustee or any one of its affiliates as the trustee of the Fund;
- (iv) any change in the Investment Objectives, Investment Strategies or Investment Restrictions, unless such changes are necessary to ensure compliance with applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time;
- (v) any increase in the fees paid to the Manager, the Portfolio Manager or the Principal Investment Advisor from those specified in the then most recent offering document of the Fund;
- (vi) any amendment, modification or variation in the provisions or rights attaching to the Units;
- (vii) any issue of Units for net proceeds per Unit less than the most recently calculated Net Asset Value per Unit prior to the date of the setting of the subscription price by the Fund;
- (viii) any termination of the Portfolio Manager (other than in certain circumstances specified in the Portfolio Management Agreement as not requiring any approval of Unitholders, such as the insolvency or wilful misconduct of the Portfolio Manager) provided that Unitholders holding at least 10% of the Units outstanding on the record date of the meeting vote in favour of such Extraordinary Resolution;
- (ix) any change in the frequency of calculating Net Asset Value per Unit to less often than weekly;
- (x) any termination of the Fund in accordance with the termination provisions of the Declaration of Trust; and
- (xi) any amendment to the above provisions of the Declaration of Trust except as otherwise permitted by the Declaration of Trust.

### **3.4 Termination of the Fund**

Pursuant to the Declaration of Trust, the Fund does not have a fixed termination date but may be terminated at any time upon not less than 90 days written notice to the Manager from the Trustee with the approval of Unitholders by an Extraordinary Resolution, provided that Unitholders holding at least 10% of the Units outstanding on the record date of the meeting vote in favour of such Extraordinary

Resolution. In addition to such termination upon the approval of the Unitholders, the Declaration of Trust also provides that the Fund may be terminated in the following circumstances:

- In the event that the Manager resigns and no new Manager is appointed by the Trustee within 120 days of the Manager giving notice to the Trustee of such resignation, the Fund will automatically terminate on the date which is 60 days following the end of such 120 day period.
- The Manager may, in its discretion, terminate the Fund without the approval of Unitholders if, in the opinion of the independent directors of the Manager, the Net Asset Value is reduced as a result of redemptions or otherwise so that it is no longer economically feasible to continue the Fund and it would be in the best interests of the Unitholders to terminate the Fund.

The Declaration of Trust further provides that prior to a Termination Date, the Manager will instruct the Portfolio Manager to convert the Fund Investments to cash to the extent practicable and will satisfy or make appropriate provision for all liabilities of the Fund. The Declaration of Trust permits that the Manager may, in its discretion and upon not less than 30 days notice to the Unitholders, postpone the Termination Date by a period of up to 180 days if the Portfolio Manager advises the Manager that it will be unable to convert all of the Fund Investments to cash prior to the original Termination Date and the Manager determines that it would be in the best interests of the Unitholders to do so. Upon termination, the Declaration of Trust provides that the Fund will distribute to Unitholders their *pro rata* portions of the remaining assets of the Fund which will include cash and, to the extent liquidation of certain assets is not practicable or the Manager considers such liquidation not to be appropriate prior to the Termination Date, such unliquidated assets *in specie* rather than in cash. Following the distribution, the Fund will be dissolved.

### **3.5 Warrants**

#### **3.5.1 General**

On February 10, 2009, the Fund issued one Warrant for each Unit of the Fund. Each whole Warrant entitles the holder to purchase one Unit at the subscription price of \$6.65 per Unit. Warrants may be exercised commencing on February 11, 2009 and prior to 5:00 p.m. (Toronto time) on September 15, 2009. Holders of Warrants who exercise the Warrants will become holders of Units issued through the exercise of the Warrants. Warrants not exercised prior to 5:00 p.m. (Toronto time) on September 15, 2009 will be void. If a Unitholder does not exercise, or sells, the Warrants, then the value of the Units held by that Unitholder may be diluted as a result of the exercise of Warrants by others.

A holder of Warrants is not a Unitholder and a holder of Warrants has not been conferred with any rights of a Unitholder, including the right to vote at meetings of Unitholders and the right to receive Distributions.

#### **3.5.2 Subscription Rights**

A holder of Warrants may subscribe for the resulting whole number of Units or any lesser whole number of Units by instructing the CDS Participant holding the subscriber's Warrants to exercise all or a specified number of such Warrants and forwarding the Subscription Price for each Unit subscribed for in accordance with the terms of the warrant offering and the Warrant Indenture to the CDS Participant which holds the subscriber's Warrants.

The entire Subscription Price for Units subscribed for must be paid at the time of subscription and must be received by the Warrant Agent in order to exercise the Warrants. Accordingly, a subscriber must deliver its payment and instructions sufficiently in advance of September 15, 2009 to allow the CDS Participant to properly exercise the Warrants on such subscriber's behalf.

The Warrants may be exercised only by a holder of Warrants who represents at the time of exercise that the holder is not located in the United States, did not acquire the Warrants while in the United States, is not a U.S. person and is not exercising the Warrants for resale to or for the account or benefit of a U.S. person or a person in the United States.

Unitholders whose recorded addresses are outside Canada, other than the United States, will be permitted to subscribe for Units pursuant to the terms of the warrant offering provided that they represent to the Fund that the receipt by them of Warrants and the issuance to them of Units upon the exercise of the Warrants will not be in violation of the laws of their jurisdiction of residence.

### **3.5.3 Additional Subscription Privilege**

Each holder of Warrants that subscribes for Units to which such holder is entitled pursuant to the basic subscription privilege may, at any time during the Exercise Period, subscribe for additional Units pursuant to the Additional Subscription Privilege, if applicable, at a price equal to the Subscription Price for each additional Unit.

Holders of Warrants will not be required to fully exercise all of their Warrants under the basic subscription privilege in order to be eligible for the Additional Subscription Privilege.

The number of Additional Units available for all additional subscriptions will be the difference, if any, between the total number of Units issuable upon exercise of Warrants and the total number of Units subscribed and paid for prior to 5:00 p.m. (Toronto time) on September 15, 2009. Subscriptions for additional Units will be received subject to allotment only and the number of additional Units, if any, which may be allotted to each subscriber will be equal to the lesser of: (a) the number of additional Units which that subscriber has subscribed for under the Additional Subscription Privilege; and (b) the product (disregarding fractions) obtained by multiplying the number of additional Units by a fraction, the numerator of which is the number of Warrants exercised by that subscriber under the basic subscription privilege and the denominator of which is the aggregate number of Warrants exercised under the basic subscription privilege by holders of Warrants that have subscribed for additional Units pursuant to the Additional Subscription Privilege. If any holder of Warrants has subscribed for fewer additional Units than such holder's *pro rata* allotment of additional Units, the excess additional Units will be allotted in a similar manner among the holders who were allotted fewer additional Units than they subscribed for.

To apply for additional Units under the Additional Subscription Privilege, a beneficial holder of Warrants must forward their request to a CDS Participant prior to 5:00 p.m. (Toronto time) on September 15, 2009. Payment in full of the Subscription Price must be received by the Warrant Agent prior to 5:00 p.m. (Toronto time) on September 15, 2009, failing which the subscriber's entitlement to such Units will terminate. Any excess funds will be returned by mail or credited to a subscriber's account with its CDS Participant, without interest or deduction. Accordingly, the subscriber must deliver payment and instructions sufficiently in advance of September 15, 2009 to allow the CDS Participant to properly exercise Warrants on such subscriber's behalf and apply for additional Units under the Additional Subscription Privilege, as applicable.

### **3.5.4 Sale or Transfer of Warrants**

Holders of Warrants in Canada may, instead of exercising their Warrants to subscribe for Units, sell or transfer their Warrants. Holders of Warrants through CDS Participants who wish to sell or transfer their Warrants must do so in the same manner in which they sell or transfer Units, namely, by providing instructions to the CDS Participant holding their Warrants in accordance with the policies and procedures of the CDS Participant. The Warrants are listed on the TSX.

It is expected that the CDS Participant will, prior to September 15, 2009, attempt to sell for Unitholders whose recorded address is outside of Canada (other than those Unitholders who confirm their eligibility to receive and exercise Warrants) the Warrants allotable to such Unitholders at a price or prices it determines in its discretion. Any proceeds received by the CDS Participant with respect to such Warrants are expected to be delivered by the CDS Participant as soon as practicable to such Unitholders.

### **4.0 VALUATION OF PORTFOLIO**

Under the Declaration of Trust, the calculation of Total Assets on a Valuation Date is to be determined as follows:

- (a) the value of any cash on hand or on deposit, bill, demand note, account receivable, prepaid expense, distribution, dividend or other amount received (or declared to holders of record of securities owned by the Fund on a date before the Valuation Date as of which the Total Assets are being determined, and to be received) and interest accrued and not yet received shall be deemed to be the full amount thereof provided that if the Manager has determined that any such deposit, bill, demand note, account receivable, prepaid expense, distribution, dividend or other amount received (or declared to holders of record of securities owned by the Fund on a date before the Valuation Date as of which the Total Assets are being determined, and to be received) or interest accrued and not yet received is not otherwise worth the full amount thereof, the value thereof shall be deemed to be such value as the Manager determines to be the fair market value thereof;
- (b) the value of any security which is listed or traded upon a stock exchange (or if more than one, on the principal stock exchange for the security, as determined by the Manager) shall be determined by taking the latest available sale price of recent date, or lacking any recent sales or any record thereof or if the most recent sales prices do not, in the opinion of the Manager, accurately represent fair market value, the simple average of the latest available offer price and the latest available bid price (unless in the opinion of the Manager such value does not reflect the value thereof and in which case the latest offer price or bid price shall be used), as at the Valuation Date on which the Total Assets are being determined, all as reported by any means in common use;
- (c) the value of a forward contract or swap shall be the gain or loss with respect thereto that would be realized if, on the Valuation Date, the position in the forward contract or swap were to be closed out in accordance with its terms;
- (d) the value of any security which is traded over-the-counter will be priced at the average of the last bid and asked prices quoted by a major dealer or recognized information provider in such securities;

- (e) the value of any security or other asset for which a market quotation is not readily available will be its fair market value on the Valuation Date on which the Total Assets are being determined as determined by the Manager;
- (f) the value of all assets quoted or valued in terms of foreign currency, the value of all funds on deposit and contractual obligations payable in foreign currency and the value of all liabilities and contractual obligations payable in foreign currency shall be determined using the applicable rate of exchange current at, or as nearly as practicable to, the date on which the Net Asset Value is computed;
- (g) listed securities subject to a hold period will be valued as described above with an appropriate discount as determined by the Manager and investments in private companies and other assets for which no published market exists will be valued at the lesser of cost and the most recent value at which such securities have been exchanged in an arm's length transaction which approximates a trade effected in a published market, unless a different fair market value is determined to be appropriate by the Manager; and
- (h) the value of any security or property to which, in the opinion of the Manager, the above 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 market value thereof determined in good faith in such manner as the Manager from time to time adopts (the Manager has not exercised its discretion to determine fair market value in the last three years);

provided that for the purposes of calculating Net Asset Value in respect of an annual redemption of Units, the value of any traded security shall be equal to the latest available bid price for such security.

The primary difference between the valuation principles set out above and Canadian generally accepted accounting principals ("Canadian GAAP") is that under Canadian GAAP, securities traded in an active market are valued using the last available bid price rather than the latest available sale price for exchange traded securities.

## **5.0 CALCULATION OF NET ASSET VALUE**

Pursuant to the Declaration of Trust, the Net Asset Value per Unit on any Valuation Date is to be calculated by dividing the Net Asset Value on such Valuation Date (calculated by subtracting the aggregate amount of the Fund's liabilities from the Total Assets) by the total number of Units outstanding on such Valuation Date. The Net Asset Value per Unit is calculated as at the close of business on each Valuation Date which is to be, at a minimum, Friday of each week (or if any Friday is not a Business Day, the immediately preceding Business Day) and the last Business Day of each month, and includes any other date on which the Manager elects, in its discretion, to calculate the Net Asset Value per Unit.

The Net Asset Value per Unit is calculated in Canadian dollars.

## **6.0 PURCHASES OF FUND UNITS AND WARRANTS**

### **6.1 General**

The Units and Warrants are listed for trading on the TSX under the symbols FFI.UN and FFI.WT, respectively, and may be purchased through the facilities of the TSX. Registration of interests in and transfers of the Units and Warrants are made only through CDS and the Units and Warrants must be

purchased, transferred and surrendered for redemption through a CDS Participant. All rights of holders must be exercised through, and all payments or other property to which such holders are entitled are made or delivered by, CDS or the CDS Participant through which the holder holds such Units or Warrants. Upon purchase of any Units or Warrants, holder receives only a customer confirmation from the registered dealer which is a CDS Participant and from or through which the securities are purchased. Units may also be purchased by Unitholders under the distribution reinvestment plan as described in section 3.2.

## **6.2 Issuer Bid**

The Declaration of Trust provides that, subject to applicable law and stock exchange requirements, the Fund may, in its sole discretion, from time to time purchase (in the open market or by invitation for tenders) Units for cancellation.

## **7.0 REDEMPTION OF SECURITIES**

### **7.1 Monthly**

Subject to the Fund's right to suspend redemptions as discussed in section 7.4 below, Unitholders are entitled to surrender Units for redemption in accordance with the Declaration of Trust for redemption on the Monthly Redemption Date, provided the Units are surrendered by 5:00 p.m. on a day that is at least 10 Business Days prior to the Monthly Redemption Date. The Declaration of Trust provides that Units surrendered for redemption on the Monthly Redemption Date will be redeemed at a redemption price per Unit that is equal to the lesser of (i) 96% of the Market Price of the Units, and (ii) 100% of the Closing Market Price of the Units, or the applicable monthly Redemption Date, plus in either case, in respect of the Units redeemed, any Distribution that has been declared payable to Unitholders of record on or before the applicable Monthly Redemption Date minus any costs associated with funding the redemption, including all brokerage fees, commissions and other costs incurred by the Fund in liquidating securities held in the Portfolio. Payment is made on or before the tenth Business Day of the subsequent month.

### **7.2 Annual**

Subject to the Fund's right to suspend redemptions as discussed in section 7.4 below, Units may be surrendered for redemption on the Annual Redemption Date, provided the Units are surrendered by 5:00 p.m. on a date that is at least 20 Business Days and not more than 45 Business Days prior to the Annual Redemption Date. The Declaration of Trust provides that Units surrendered for redemption on an Annual Redemption Date will be redeemed at a redemption price per Unit that is equal to the Net Asset Value per Unit for each Unit so redeemed, plus, in respect of the Units redeemed, any Distribution that has been declared payable to Unitholders of record on or before the Annual Redemption Date minus any costs associated with funding the redemption, including all brokerage fees, commissions and other costs incurred by the Fund in liquidating securities held in the Portfolio. Payment will be made on or before the tenth Business Day of the subsequent month.

### **7.3 General**

A Unitholder who desires to exercise redemption privileges must do so by causing the CDS Participant through which he or she holds Units to deliver to CDS at its office in the City of Toronto on behalf of the Unitholder, a written notice of the Unitholder's intention to redeem Units by the expiry time outlined in sections 7.1 and 7.2. A Unitholder who desires to redeem Units should ensure that the CDS Participant is provided with notice of his or her intention to exercise the redemption right sufficiently in advance of the

applicable redemption date deadline so as to permit the CDS Participant to deliver a notice to CDS by the applicable expiry time.

By causing a CDS Participant to deliver to CDS a notice of the Unitholder's intention to redeem Units, the Unitholder shall be deemed to have irrevocably surrendered his or her Units for redemption and appointed such CDS Participant to act as his or her exclusive settlement agent with respect to the exercise of such redemption privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise, provided that the Manager may from time to time prior to the Redemption Date permit the withdrawal of a redemption notice on such terms and conditions as the Manager may determine, in its sole discretion, provided that such withdrawal will not adversely affect the Fund. Any expense associated with the preparation and delivery of the redemption notice will be for the account of the Unitholder exercising the redemption privilege.

Any redemption notice that CDS determines to be incomplete, not in proper form or not duly executed shall, for all purposes, be void and of no effect and the redemption privilege to which it relates shall be considered, for all purposes, not to have been exercised. A failure by a CDS Participant to exercise redemption privileges or to give effect to the settlement thereof in accordance with a Unitholder's instructions will not give rise to any obligations or liability on the part of the Fund, the Trustee or the Manager to the CDS Participant or the Unitholder.

#### **7.4 Suspension of Redemptions**

The Declaration of Trust permits the Manager to direct the Trustee to suspend the redemption of Units or payment of redemption proceeds (a) for the whole or any part of a period during which normal trading is suspended on one or more stock exchanges, options exchanges or futures exchanges on which more than 50% of the Total Assets (by value) are listed and traded; (b) with the permission of the Ontario Securities Commission, for any period not exceeding 120 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Fund or which impair the ability of the Manager to determine the value of the assets of the Fund; or (c) for a period not exceeding five Business Days where the redemption would result in a breach of the Loan Facility so long as immediate steps are taken to rectify the circumstances giving rise to such breach. The suspension may apply to all requests for redemption received prior to the suspension, but for which payment has not been made, as well as to all requests received while the suspension is in effect. All Unitholders shall have, and shall be advised that they have, the right to withdraw their requests for redemption. Redemptions so suspended will be effected at a price determined on the first date that the Net Asset Value per Unit, Market Price and Closing Market Price, as applicable, are calculated following the termination of the suspension. The suspension shall terminate in any event on the first Business 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 announced by any government body having jurisdiction over the Fund, any declaration of suspension made by the Manager shall be conclusive.

On the redemption of Units, the Fund may, in its sole discretion, designate payable to the redeeming Unitholder, as part of the redemption price any capital gain realized by the Fund in the taxation year of the Fund in which the redemption occurred.

## **8.0 RESPONSIBILITY FOR OPERATIONS**

### **8.1 Manager**

The Declaration of Trust provides that the Trustee shall appoint or retain a manager to manage the business and affairs of the Fund. The Trustee has appointed the Manager pursuant to the terms of the Declaration of Trust and the Management Agreement.

Brompton Funds Management Limited was formed pursuant to the Business Corporations Act (Ontario) by articles of amalgamation dated October 27, 2006. Its head office is located at Suite 2930, Bay Wellington Tower, Brookfield Place, 181 Bay Street, Toronto, Ontario M5J 2T3. Its telephone number is (416) 642-6000, its e-mail address is [info@bromptongroup.com](mailto:info@bromptongroup.com) and its website address is [www.bromptongroup.com](http://www.bromptongroup.com). The Manager was organized for the purpose of managing and administering closed-end investment funds, including the Fund, and is a member of the Brompton group of companies.

Pursuant to the Management Agreement, the Manager is responsible for providing, or causing to be provided, management and administrative services and facilities to the Fund, and may delegate certain of its powers to third parties at no additional cost to the Fund where, in the discretion of the Manager, it would be in the best interests of the Fund and the Unitholders to do so.

#### **8.1.1 Management Fee**

In consideration for its services, the Fund pays the Manager the Management Fee and reimburses the Manager for all reasonable costs and expenses incurred by the Manager on behalf of the Fund. The Management Fee for 2008 was equal to 0.35% per annum of Net Asset Value of the Fund, calculated and payable monthly in arrears, plus applicable taxes. The Management Fee was reduced effective January 1, 2009 to 0.30% of Net Asset Value of the Fund, following the Fund's merger with Flaherty & Crumrine Investment Grade Preferred Fund.

The Management Fee may be paid in cash or Units, at the option of the Manager. To the extent that Units are issued from treasury for this purpose, Units will be issued at their Net Asset Value per Unit. In 2008 such fees were paid in both cash and Units.

#### **8.1.2 Service Fee**

The Manager is also paid a Service Fee by the Fund for paying the fees payable to dealers based on the number of Units held by clients of such dealers at the end of each relevant quarter. The Service Fee (calculated quarterly and paid as soon as practicable after the end of each calendar quarter) is equal to 0.30% per annum of the Net Asset Value of the Fund represented by the Units held at the end of the relevant quarter by clients of dealers, plus applicable taxes.

#### **8.1.3 Termination of the Management Agreement**

The Management Agreement may be terminated at any time by the Trustee on 90 days written notice with the approval of the Unitholders by an Ordinary Resolution passed at a duly convened meeting of Unitholders called for the purpose of considering such Ordinary Resolution, provided that Unitholders holding at least 10% of the Units outstanding on the record date of the meeting vote in favour of such Ordinary Resolution. The Management Agreement may also be terminated;

- by the Fund on 30 days written notice to the Manager in the event of the persistent failure of the Manager to perform its duties and discharge its obligations under the Management

Agreement, or the continuing malfeasance or misfeasance of the Manager in the performance of its duties under the Management Agreement;

- by the Fund immediately in the event of the commission by the Manager of any fraudulent act; and
- automatically, if the Manager becomes bankrupt, insolvent or makes a general assignment for the benefit of its creditors.

The Manager may resign upon 120 days notice to the Trustee. The Manager may assign the Management Agreement to an affiliate of the Manager at any time.

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

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

##### **Name and Municipality of Residence and Position with the Manager**

##### **Principal Occupation and Positions Held During the Last 5 Years**

PETER A. BRAATEN <sup>(1)</sup>  
Toronto, Ontario  
Director

Chairman, Brompton Group Limited and its predecessor Brompton Limited, since November 2000.

MARK A. CARANCI <sup>(1)</sup>  
Toronto, Ontario  
President, Chief Executive Officer and Director

President and Chief Executive Officer, Brompton Funds since April 2007; President, Brompton Funds from April 2006 to April 2007; Chief Financial Officer, Brompton from 2000 to April 2006.

RAYMOND R. PETHER <sup>(1)</sup>  
Toronto, Ontario  
Director

Chief Executive Officer, Brompton Group Limited and its predecessor Brompton Limited, since April 2001.

CRAIG T. KIKUCHI  
Toronto, Ontario  
Chief Financial Officer

Chief Financial Officer, Brompton Funds since April 2006; Vice President, Finance, Brompton Funds from August 2005 to April 2006; Controller, Brompton from February 2002 to August 2005.

DAVID E. ROODE  
Toronto, Ontario  
Senior Vice President

Senior Vice President, Brompton Funds since August 2005, Senior Vice President, Brompton from May 2005 to August 2005; Vice President, Brompton from September 2002 to May 2005.

MOYRA E. MACKAY  
Toronto, Ontario  
Vice President and Corporate Secretary

Vice President & Corporate Secretary, Brompton Funds since July 2005; Vice President & Corporate Secretary, Brompton from May 2000 to July 2005.

LORNE ZEILER  
Toronto, Ontario  
Vice President

Vice President, Brompton Funds since August 2005; Vice President, Brompton from September 2004 to August 2005; Senior Financial Analyst, Assante Advisory Services from 2003 to 2004.

ANN WONG  
Toronto, Ontario  
Vice President and Controller

Vice President, Brompton Funds since October 2007, Controller, Brompton Funds since October 2005; Senior Manager, Treasury Finance Group Canadian Imperial Bank of Commerce from June 2004 to September 2005; Manager, PricewaterhouseCoopers LLP from September 2001 to June 2004.

**Name and Municipality of Residence  
and Position with the Manager**

CHRISTOPHER CULLEN  
Toronto, Ontario  
Vice President

**Principal Occupation and Positions Held During the Last 5 Years**

Vice President, Brompton Funds since October 2007; Assistant Vice President, Brompton Funds from April 2006 to October 2007; Manager Commercial Banking, CIBC Commercial Banking from September 2003 to February 2006.

Note:

<sup>(1)</sup> Member of the Audit Committee.

**8.1.5 Independent Review Committee**

The members of the IRC are James W. Davie, Arthur R.A. Scace and Ken S. Woolner. Mr. Woolner is the Chair of the IRC and is the primary person to interact with the Manager.

The mandate and responsibilities of the IRC are set out in its charter. The IRC is responsible for carrying out those responsibilities required to be undertaken by an IRC under NI 81-107, in particular:

- (a) reviewing and providing input into the Manager's policies and procedures regarding conflict of interest matters, including any amendments to such policies and procedures referred to the IRC by the Manager;
- (b) approving or disapproving each conflict of interest matter referred by the Manager to the IRC for its approval;
- (c) providing its recommendation as to whether the Manager's proposed action on a conflict of interest matter referred by the Manager to the IRC for its recommendation achieves a fair and reasonable result for the Fund;
- (d) together with the Manager, providing orientation to new members of the IRC as required by NI 81-107;
- (e) conducting regular assessments as required by NI 81-107; and
- (f) reporting to the securityholders of the Fund, to the Manager and to regulators as required by NI 81-107.

In addition to its responsibilities and functions under NI 81-107, the IRC:

- (a) shall handle complaints and implement corrective action regarding accounting, internal accounting controls, auditing matters and the like for the Manager, as more specifically set out in the Whistleblower Policy of the Manager;
- (b) shall act in an advisory capacity to the Audit Committee of the Board of Directors of the Manager, as more specifically set out in its charter; and
- (c) may, as more specifically set out in its charter, identify conflict of interest matters

Note:

The members of the IRC also act as the members of the independent review committees for other investment funds managed by the Manager.

## 8.2 Portfolio Manager and Principal Investment Advisor

The Declaration of Trust provides that the Manager shall, on behalf of the Trust, retain a Principal Investment Advisor and, on the advice of such Principal Investment Advisor, a Portfolio Manager, or the Principal Investment Advisor itself may retain the Portfolio Manager, to make investment decisions with respect to the Fund Property, in accordance with the Investment Objectives and the Investment Strategies and subject to the Investment Restrictions. The Manager has retained Brompton Capital Advisors Inc. as the Principal Investment Advisor pursuant to an Advisory Services Agreement to act as the principal investment advisor of the Fund, in accordance with the terms of the Declaration of Trust. In addition, the Principal Investment Advisor retained the Portfolio Manager pursuant to the Portfolio Management Agreement to provide investment advisory and portfolio management services to the Fund. The Principal Investment Advisor's principal office is located at Suite 2930, Bay Wellington Tower, Brookfield Place, 181 Bay Street, Toronto, Ontario. The Portfolio Manager's principal office is located at 301 East Colorado Boulevard, Suite 720, Pasadena, California, 91101 USA. The Principal Investment Advisor is registered in Ontario as a limited market dealer and an investment counsel and portfolio manager. The Principal Investment Advisor and the Portfolio Manager may, pursuant to the terms of the Advisory Services Agreement and the Portfolio Management Agreement, respectively, delegate any of its functions, powers, responsibilities and duties to any of its affiliates.

### 8.2.1 Fee

The Fund pays the Principal Investment Advisor and the Portfolio Manager an aggregate annual portfolio management fee equal to 0.70% of the Net Asset Value of the Fund calculated and payable monthly in arrears plus applicable taxes and the Fund reimburses the Principal Investment Advisor and the Portfolio Manager for all reasonable costs and expenses incurred on behalf of the Fund. Such fees are payable in cash or Units of the Fund at the option of the Principal Investment Advisor and Portfolio Manager. In 2008, such fees were paid in both cash and Units.

### 8.2.2 The Portfolio Managers

The principal portfolio managers of Flaherty & Crumrine Incorporated who are responsible for the investment management of the Fund are as follows:

<b>Name</b>	<b>Length of Service and Experience in the Past 5 Years</b>
Donald F. Crumrine	Chairman since 1996.
Robert M. Ettinger	President since 1996.
Bradford S. Stone	Vice President since May 2003; Director of US Market Strategy, Barclays Capital from 2001 to April 2003.
R. Eric Chadwick	Vice President since 2001.

Investment decisions are made by a team consisting of Messrs. Ettinger, Chadwick, Stone and Crumrine.

### 8.2.3 Brokerage Arrangements

In those instances where investment or brokerage discretionary authority is not limited, the Portfolio Manager will generally seek "best net execution" in light of the circumstances involved in transactions. In selecting a broker for any transactions, the Portfolio Manager may consider a number of factors, including, for example, net price, reputation, financial strength and stability, efficiency of execution and

error resolution, the size of the transaction and the market for the security. Depending upon market conditions and the security involved, transactions can be completed on either a principal or an agency basis. Most transactions in the preferred and debt securities markets are executed on a principal basis, with a dealer acting as principal. The Portfolio Manager's trading desk is generally aware of the prices and sizes of the major dealers' bids for and offers of securities. Each transaction reflects what the Portfolio Manager believes to be the best net execution available at that point in time. For transactions completed on an agency or "plus commission" basis, best net execution is defined to take into account both commissions paid and the prices at which transactions are executed. Variations in commissions paid from transaction to transaction reflect differences in the skill and difficulty involved in the execution of the particular order.

It is the Portfolio Manager's policy to pay for all operating expenses. Consequently, the Portfolio Manager will not enter into any soft dollar arrangement with any broker-dealer, whereby brokerage commissions on trades directed to the broker-dealer are used to purchase products and services other than execution of securities transactions. Although certain broker-dealers may supply the Portfolio Manager with products and services other than brokerage in the ordinary course of business (e.g., internal research), the Portfolio Manager does not consider any such service in selecting broker-dealers to execute portfolio transactions and the Portfolio Manager will always seek best execution and the availability of such products and services generally will not be contingent upon the Portfolio Manager committing to the broker-dealer any specific amount of business.

The Portfolio Manager is registered as an investment adviser, not as a broker/dealer, and does not have any broker-dealer affiliates.

#### **8.2.4 Termination of the Portfolio Management Agreement**

The Portfolio Management Agreement will automatically terminate on the Termination Date set out in the Declaration of Trust. The Fund or the Principal Investment Advisor may also terminate the Portfolio Management Agreement:

- with the approval of Unitholders of the Fund by an Extraordinary Resolution, provided that Unitholders holding at least 10% of the Units outstanding on the record date of the meeting vote in favour of such Extraordinary Resolution;
- in the event that the Portfolio Manager is in material breach of the Portfolio Management Agreement and the material breach has not been cured within 30 days written notice thereof to the Portfolio Manager;
- if there is a dissolution and commencement of winding-up of the Portfolio Manager; if the Portfolio Manager becomes bankrupt or insolvent or makes a general assignment for the benefit of its creditors or a receiver is appointed in respect of the Portfolio Manager or a substantial portion of its assets;
- if the assets of the Portfolio Manager become subject to seizure or confiscation by any public or governmental organization;
- if the Portfolio Manager has lost any registration, license or other authorization required by it to perform its duties under the Portfolio Management Agreement, including without limitation the benefit of any exemption from the requirement to register under Canadian securities laws, or is otherwise deemed unable to perform the services delegated to it under the Portfolio Management Agreement; or

- if the Portfolio Manager has acted with wilful misconduct, fraud or negligence and as a result of such action there has been a material adverse effect on the Portfolio.

The Portfolio Management Agreement may be terminated by the Portfolio Manager:

- in the event that the Fund or the Principal Investment Advisor is in material breach of the Portfolio Management Agreement and such breach is not cured within 30 days written notice to the Fund; or
- on 120 days written notice to the Trustee and the Principal Investment Advisor.

### **8.2.5 Termination of the Advisory Services Agreement**

The Advisory Services Agreement will automatically terminate on the Termination Date set out in the Declaration of Trust. The Fund may also terminate the Advisory Services Agreement:

- in the event that the Principal Investment Advisor is in material breach of the Advisory Services Agreement and the material breach has not been cured within 30 days written notice thereof to the Principal Investment Advisor;
- if there is a dissolution and commencement or winding-up of the Principal Investment Advisor;
- if the Principal Investment Advisor becomes bankrupt or insolvent or makes a general assignment for the benefit of its creditors or a receiver is appointed in respect of the Principal Investment Advisor or a substantial portion of its assets;
- if the assets of the Principal Investment Advisor become subject to seizure or confiscation by any public or governmental organization;
- if the Principal Investment Advisor has lost any registration, licence or other authorization by it to perform its duties under the Advisory Services Agreement, including without limitation, the benefit of any exemption from the requirement to register under Canadian securities laws, or is otherwise deemed unable to perform the services delegated to it under the Advisory Services Agreement; or
- if the Principal Investment Advisor has acted with wilful misconduct, fraud or negligence and as a result of such action there has been a material adverse effect on the Portfolio.

The Advisory Services Agreement may be terminated by the Principal Investment Advisor:

- in the event that the Fund or the Manager is in material breach of the provisions of the Advisory Services Agreement and such breach has not been cured within 30 days written notice to the Fund and the Manager; or
- on 120 days written notice to the Fund and the Manager.

### **8.3 Trustee**

Computershare Trust Company of Canada is the Trustee of the Fund and is responsible for certain aspects of the administration of the Fund as described in the Declaration of Trust. The address of the Trustee is 100 University Avenue, 11<sup>th</sup> Floor, Toronto, Ontario M5J 2Y1.

### **8.4 Custodian**

The Manager has appointed RBC Dexia Investor Services Trust as Custodian of the Fund Property pursuant to the terms of a Custodian Agreement dated as of December 3, 2004, to provide various safekeeping and custodial services relating to the Fund Property. The address of the Custodian is 77 King Street West, Toronto, Ontario M5W 1P9.

The Custodian may, in accordance with the terms of the Custodian Agreement, appoint sub-custodians and enter into sub-custodian agreements. The principal sub-custodian appointed by the Custodian is The Bank of New York Mellon, 1 Wall Street, New York, New York. The Custodian entered into sub-custodian agreements with The Bank of New York Mellon, under which The Bank of New York Mellon provides for the safekeeping of client assets of the Custodian in the United States.

#### **8.4.1 Custodian Fees**

In consideration for its services, the Fund pays to the Custodian such compensation as agreed upon in writing between the Manager and the Custodian, from time to time and reimburses the Custodian for all reasonable costs and expenses incurred by the Custodian on behalf of the Fund.

#### **8.4.2 Termination of the Custodian Agreement**

The Custodian Agreement may be terminated by either party without penalty by giving at least 60 days prior written notice. Prior notice is not required and termination will be immediate if:

- either party is declared bankrupt or shall be insolvent;
- the assets or the business of either party shall become liable to seizure or confiscation by any public or governmental authority; or
- the Manager's powers and authorities to act on behalf of or represent the Fund have been revoked or terminated.

### **8.5 Valuation Services**

The Manager, on behalf of the Fund, has appointed RBC Dexia Investor Services Trust to provide the Fund with valuation services. Such services include the calculation of the Fund's weekly Net Asset Value, calculated in accordance with the Fund's valuation parameters described in section 4.0.

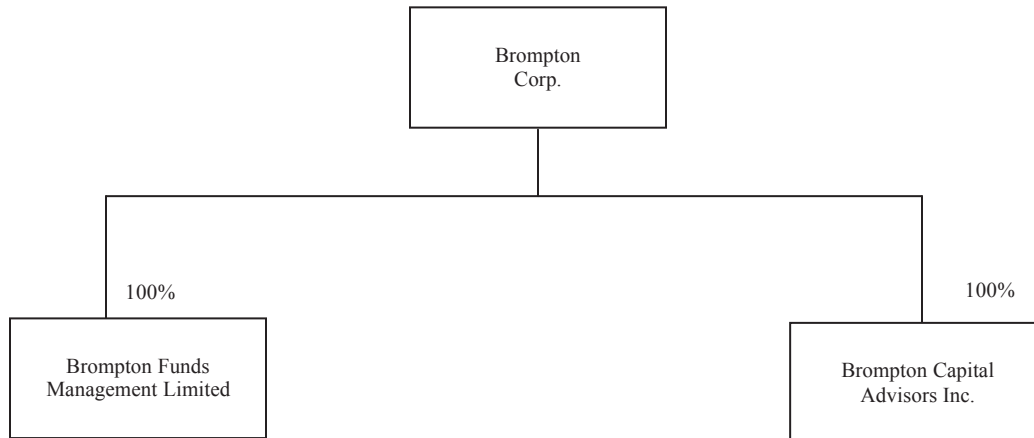
### **8.6 Auditor, Registrar, Transfer Agent and Distribution Agent**

The auditors of the Fund are PricewaterhouseCoopers LLP, Chartered Accountants, Suite 3000, 77 King Street West, Toronto, Ontario M5K 1G8. The auditors of the Fund can be changed by Ordinary Resolution of the Unitholders. Computershare Trust Company of Canada is the registrar, transfer agent and distribution agent for the Units and Warrants. The registers and transfer ledgers for the Units and Warrants are kept at its offices located in Toronto.

## 9.0 CONFLICTS OF INTEREST

### 9.1 Principal Holders of Securities and Affiliated Entities

The Manager is an affiliated entity of the Principal Investment Advisor as set forth in the following diagram:



Note:

Brompton Capital Advisors Inc., the Principal Investment Advisor, is wholly owned by Brompton Corp. Each of the following directors and/or officers of the Manager hold offices with the Principal Investment Advisor: Mr. Pether, Chairman; Mr. Caranci, Executive Vice President; Ms. MacKay, Vice President and Corporate Secretary; Mr. Kikuchi, Chief Financial Officer; and Mr. Zeiler, Vice-President.

The amount of fees received by the Manager and the Principal Investment Advisor, including the advisory fee, is contained in the audited financial statements of the Fund. Information on remuneration of the Manager and the Principal Investment Advisor is set out in sections 8.1.1 and 8.2.1, respectively.

The Declaration of Trust acknowledges that the Trustee may provide services to the Fund in other capacities, provided that the terms of any such arrangements are no less favourable to the Fund than those which would be obtained from parties which are at arm's length for comparable services. The services of the Custodian and the officers and directors of the Custodian are not exclusive to the Fund. The Custodian and its affiliates and associates (as defined in the *Securities Act* (Ontario)) may, at any time, engage in any other activity.

The Manager, the Principal Investment Advisor and the Portfolio Manager and their respective directors and officers may engage in the promotion, management or investment management of one or more funds or trusts. The Principal Investment Advisor and the Portfolio Manager each act as the investment advisor or administrator for other funds and may in the future act as the investment advisor to other funds which could be considered competitors of the Fund. The services of the Manager are not exclusive to the Fund.

In addition, the directors and officers of the Manager, the Principal Investment Advisor and the Portfolio Manager may be directors, officers, shareholders or unitholders of one or more issuers in which the Fund may acquire securities. The Manager, the Principal Investment Manager and the Portfolio Manager or their respective affiliates may be a manager of one or more issuers in which the Fund may acquire securities and may be managers or administrators of funds with similar investment objectives as the Fund. Although none of the directors or officers of the Manager, the Principal Investment Manager or the Portfolio Manager will devote his or her full time to the business and affairs of the Fund, each director and officer of the Manager, the Principal Investment Advisor or the Portfolio Manager will devote as

much time as is necessary to supervise the management of (in the case of the directors) or to manage the business and affairs of (in the case of officers) the Fund, the Manager, the Principal Investment Advisor and the Portfolio Manager, as applicable.

## **9.2 Securities held by Members of the Independent Review Committee**

As at December 31, 2008, the members of the IRC did not hold any securities of the Manager. In addition, the percentage of securities of each class or series of voting securities beneficially owned, directly or indirectly, in aggregate, by all members of the IRC in any service provider or in any one or more Canadian chartered bank which provides a loan facility or other credit to the Fund or Manager is less than 1%.

## **10.0 FUND GOVERNANCE**

Brompton supports good governance practices for its funds. The Fund is managed by the Manager and consequently, the Board of Directors and Audit Committee referred to are the Board and Audit Committee of the Manager. The Board is responsible for the overall stewardship of the business and affairs of the Fund. The Board consists of 3 directors, 2 of whom are independent of management. Details regarding the names, principal occupations and committee memberships of the Board are set out in section 8.1.4. The Board believes that the number of directors is appropriate.

The Board members are also members of the Audit Committee. The Audit Committee consists of 3 members, 2 of whom are independent. The responsibilities of the Audit Committee include, but are not limited to, review of the Fund's financial statements and the annual audit performed by PricewaterhouseCoopers LLP ("PWC"), the auditor of the Fund; oversight of internal controls and of the Fund's compliance with tax laws and regulations. PWC reports to the Audit Committee and the Audit Committee and PWC have direct communication channels to discuss and review specific issues as appropriate.

The Board is responsible for developing the Fund's approach to governance issues. To ensure the proper management of the Fund and compliance with regulatory requirements, the Board of Directors has adopted policies, procedures and guidelines relating to business practices, risk management control, and internal conflicts of interest. As part of managing its business practices, the Board has adopted a Whistleblower Policy, a Privacy Policy and a Proxy Voting Policy. The Whistleblower Policy establishes a procedure for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls and auditing matters pertaining to the Fund. The Privacy Policy dictates the manner in which the Fund and the Manager may collect, use and disclose personal information regarding the Unitholders. The Proxy Voting Policy is described in section 10.2. As part of its risk management, the Board has adopted a Disclosure Policy. The Disclosure Policy sets out guidelines that aim to ensure that complete, accurate and balanced information is disclosed to the public in a timely, orderly and broad-based manner in accordance with securities laws and regulations. As part of managing potential internal conflicts of interest, the Board has adopted a Code of Business Ethics and an Insider Trading Policy. The Code of Business Ethics and Insider Trading Policy, address, among other things, ethical business practices and handling of material information and purchasing or selling of securities by insiders.

NI 81-107 requires the Manager to have policies and procedures relating to conflicts of interest and the Manager has such policies and procedures in place.

In accordance with NI 81-107, the Manager has appointed an IRC to deal with potential conflict of interest matters between the Manager and the Fund. See section 8.1.5 of this Annual Information Form.

The Manager maintains a website for the Fund at [www.bromptongroup.com](http://www.bromptongroup.com). The mandate of the Board is available on the website. The Manager has an investor relations line to respond to inquiries from Unitholders, which is 1-866-642-6001.

### **10.1 Composition of Independent Review Committee**

As indicated in section 8.1.5 of this Annual Information Form, the IRC is comprised of three members, who were appointed by the Manager in accordance with NI 81-107. Subsequent to this initial appointment by the Manager, the IRC shall, taking into consideration any recommendation of the Manager, fill vacancies on the IRC, provided that if for any reason the IRC has no members, the Manager shall fill the vacancies.

### **10.2 Proxy Voting Policy**

The Portfolio is managed by Flaherty & Crumrine Incorporated and pursuant to the Portfolio Management Agreement, the Portfolio Manager is authorized to exercise all rights and privileges incidental to ownership of the Fund Investments. The Fund has adopted the Portfolio Manager's proxy voting policies and procedures which are summarized as follows:

Preferred stock generally has voting rights only in the event that the issuer has not made timely payments of income and principal to shareholders or in the event that a corporation desires to change its articles of incorporation which might modify the rights of the preferred stockholders. These are non-routine in both form and substance.

In the case of non-routine matters having to do with the modification of the rights or protections accorded preferred stock shareholders or where preferred shares as a class are entitled to vote on a merger or other substantial transaction, the Portfolio Manager will attempt to assess the costs and benefits of such modifications and will vote in favour of such modifications only if they are in the best interests of the preferred shareholders or if the issuer has offered sufficient compensation to preferred stock shareholders to offset the reasonably foreseeable adverse consequences of such modifications. In the case of the election of directors when timely payments to preferred shareholders have not been made, the Portfolio Manager will vote on a case by case basis after investigation of the qualifications and independence of the persons standing for election.

Routine matters are voted on a case-by-case basis, however, in those cases where the common shares of an issuer are held by a parent company and therefore the election outcome is not in doubt, the Portfolio Manager does not intend to vote such proxies since the time and costs would outweigh the benefits.

The Portfolio Manager will communicate with the Manager, and, if necessary, the IRC of the Fund, in instances when a material conflict of interest may be apparent between the Portfolio Manager and the Fund regarding the matter being voted upon. The Portfolio Manager will describe the nature of the conflict and give its voting recommendation.

The policies and procedures that the Fund follows when voting proxies relating to portfolio securities are available on request, at no cost, by calling 1-866-642-6001 or by writing to the Manager at Suite 2930, Box 793, Bay Wellington Tower, Brookfield Place, 181 Bay Street, Toronto, ON M5J 2T3.

The Fund's voting record for the most recent period ended June 30 of each year is available free of charge to any Unitholder of the Fund upon request at any time after August 31 of that year. The Fund has made its proxy voting record available on its website at [www.bromptongroup.com](http://www.bromptongroup.com)

### 10.3 Use of Derivative Instruments

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

Risks to be hedged against include interest rate increases as described below and fluctuations in currency values.

The Portfolio Manager may engage in hedging strategies in an attempt to protect the Portfolio against adverse changes in the level of interest rates. Under normal market conditions, the Portfolio Manager employs a hedging strategy that is intended to mitigate the impact of significant interest rate increases on the Net Asset Value of the Portfolio, while permitting it to benefit from declines in interest rates (the “Safety Net Hedge”). The strategy is intended to result in income generated by the Portfolio increasing over time in response to significant increases in interest rates, while being relatively resistant to the impact of declines in interest rates. The Portfolio Manager uses various hedging instruments and techniques, including entering into future contracts, options on futures contracts, interest rate swap positions and options thereon, known as “swaptions”.

The Safety Net Hedge is designed to hedge against substantial rate increases that occur over an investment horizon. Normally, the Safety Net Hedge is structured to reduce the duration of the Portfolio to approximately zero if the level of interest rates rises by 40-50 basis points over a one to three-month horizon, while leaving the Portfolio duration relatively high if interest rates remain stable or decline, although the exact structure of the Safety Net Hedge will vary with market conditions. There is a cost to this hedging strategy that is borne by the Portfolio. While total returns will be considerably higher with the hedge than without it when interest rates rise significantly, total return generally will be lower than it otherwise would be in a stable to falling interest rate environment. Given the long duration of the Portfolio, the Portfolio Manager believes that the Safety Net Hedge helps the Fund achieve its Investment Objectives, and the Portfolio Manager will seek to balance the cost of the hedge over time with the risk-reduction benefit provided by it.

Under normal market conditions, the Portfolio will be fully hedged against increases in the level of interest rates using the Safety Net Hedge or, under certain circumstances, other hedging strategies. As with virtually all hedging strategies, there can be no assurance that the hedge will accomplish its objective. On November 25, 2008, the Fund announced that the Portfolio Manager had decided to suspend employing the safety net hedging strategy due to abnormal market conditions. Recent market conditions reduced the effectiveness of the strategy as the correlation between the Fund’s portfolio and U.S. Treasury bonds has declined substantially and an increase in market volatility has significantly increased the strategy’s cost. The Portfolio Manager will continue to review market conditions to determine if it will be appropriate to employ the safety net hedging strategy again.

The Net Asset Value is measured in Canadian dollars and payments to Unitholders will be made in Canadian dollars. However, most of the investments in the Portfolio will consist of securities denominated in U.S. dollars. It is expected that substantially all of the Portfolio will be hedged back to the Canadian dollar at all times. The Principal Investment Advisor will provide advice to the Fund with regard to currency hedging. While the Fund intends to purchase forward contract for currency hedging, it is not precluded from using other derivatives, such as put and call options on foreign currencies to do so. The Fund may also buy and sell credit derivatives, including credit default swaps, total return swaps and market spread swaps, to manage credit risk and, in certain instances, to increase total return.

Although there are no written guidelines, restrictions or limits other than those described in the prospectus, prior to any derivatives transaction, a risk analysis is performed by the Portfolio Manager to assess the projected effectiveness of the strategy. The derivatives positions are regularly monitored by the portfolio management team who are also responsible for trading the securities. The policies and procedures that set out the objectives and goals for the use of hedging strategies are set out in the Declaration of Trust and are reviewed by the Board. The Portfolio Manager is solely responsible for monitoring the risks in both the securities and hedge (derivatives) portfolios, reporting at least quarterly to the Board and/or Manager. The Portfolio Manager manages the hedge portfolio actively in response to both changing market conditions and changes in the securities portfolio. As part of this process, the Portfolio Manager regularly performs scenario analysis whereby all securities and derivatives are subjected to interest rate shifts, the expected impact on each security and derivative instrument is measured, and the results are aggregated to determine the expected impact upon (1) the securities portfolio, (2) the derivatives portfolio, and (3) the combined portfolio.

#### **10.4 Securities Lending**

In order to generate additional returns, the Manager has entered into written securities lending agreement (a “Securities Lending Agreement”) on behalf of the Fund with the Custodian, as agent for the Fund, to administer any securities lending transaction for the Fund.

The Manager manages the risks associated with securities lending by requiring the Custodian, pursuant to the Securities Lending Agreement, to:

- Enter into securities lending, repurchase or reverse purchase transactions with reputable and well-established Canadian and foreign brokers, dealers and institutions (“counterparties”);
- Maintain internal controls, procedures and records including a list of approved counterparties based on generally accepted creditworthiness standards, transaction and credit limits for each counterparty and collateral diversification standards;
- Establish daily the market value of both the securities loaned by the Fund under a securities lending transaction or sold by the Fund under a repurchase transaction and the cash or collateral held by the Fund. If on any day the market value of the cash or collateral is less than 102% of the market value of the borrowed or sold securities, the Custodian will request that the counterparty provide additional cash or collateral to the Fund to make up the shortfall;
- Ensure that no more than 50% of the Total Assets of the Fund are out on loan at one time; and
- Ensure that the collateral to be delivered to the Fund is one or more of cash, qualified securities or securities immediately convertible into, or exchangeable for, securities of the same issuer, class or type, and same term, if applicable, as the securities being loaned by the Fund.

The transaction may be terminated by the Fund at any time and the loaned securities recalled within the normal and customary settlement period for such transactions.

The Manager has written procedures that set out the objectives, goals and risk management practices with respect to securities lending arrangements which are reviewed annually by the Board of Directors. The Securities Lending Agreement is approved by the Board of Directors of the Manager and securities lending arrangements and risks are monitored by the Manager. The Custodian conducts simulations to test the portfolio under stress conditions.

## 10.5 Short-Term Trades

The Fund's Units trade on the TSX. The Fund does not have policies and procedures in place to monitor, detect and deter short-term trading given that:

- (i) the Fund is a closed-end investment trust;
- (ii) Unitholders are only permitted to redeem Units on a monthly or annual basis;
- (iii) monthly redemptions of Units are at a discount to NAV per Unit and are equal to the lesser of (i) 96% of the Market Price of the Units, and (ii) 100% of the Closing Market Price;
- (iv) the annual redemption is based on the NAV per Unit on the second last business day of November; and
- (v) redemptions require more than 4 weeks to process from the date a holder notifies CDS of the redemption to the date the redemption proceeds are paid out.

## 11.0 INCOME TAX CONSIDERATIONS

The following is a summary of the principal Canadian federal income tax considerations under the Income Tax Act with respect to the acquisition, ownership and disposition of Units and Warrants generally applicable as at the date of this annual information form to you if you are an individual (other than a trust) and, for the purposes of the Income Tax Act, are a resident in Canada, deal at arm's length with the Fund and hold Units and Warrants as capital property.

Generally, Units and Warrants will be considered to be capital property to a holder provided that the holder does not hold Units or Warrants in the course of carrying on a business of buying and selling securities and has not acquired Units or Warrants in one or more transactions considered to be an adventure in the nature of trade. Certain Unitholders who might not otherwise be considered to hold their Units as capital property may, in certain circumstances, be entitled to have Units treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Income Tax Act.

This summary is based on the current provisions of the Income Tax Act and counsel's understanding of the current published administrative and assessing practices of the CRA and the Tax Proposals. This summary assumes that the Tax Proposals will be enacted as proposed. Except for the Tax Proposals, this summary does not take into account or anticipate any changes in law, whether by legislative, government or judicial decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations. There can be no assurance that the Tax Proposals will be enacted in the form publicly announced or at all.

This summary is not exhaustive of all possible Canadian federal tax considerations applicable to an investment in Units and Warrants and does not describe the income tax considerations relating to the deductibility of interest on money borrowed to acquire Units or Warrants. Moreover, the income and other tax consequences of acquiring, holding or disposing of Units or Warrants will vary depending on a holder's particular circumstances including the province or provinces or territory or territories in which the holder resides or carries on business. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any holder. Holders should consult their own tax advisors for advice with respect to the income tax consequences of an investment in Units or Warrants, based on their particular circumstances.

This summary is based on the assumption that none of the issuers of the securities in the Portfolio will be foreign affiliates of the Fund or of any Unitholder and that none of the securities in the Portfolio will be participating interests, other than exempt interests in foreign investment entities, tracking entities or interests in a non-resident trust other than an exempt foreign trust under the proposal to amend the Income Tax Act released as part of Bill C-10, which was before the 39<sup>th</sup> Parliament (or such proposals as amended or enacted).

### **11.1 Taxation of the Fund**

The Fund is subject to tax in each taxation year under Part I of the Income Tax Act on the amount of its income for the year, including the taxable portion of Net Capital Gains, less the portion thereof that it claims in respect of the amounts paid or payable to Unitholders in the year. Provided the Fund makes distributions in each year of its Net Income and Net Capital Gains and provided the Fund deducts in computing its income the full amount available for deduction in each year, the Fund will generally not be liable in such year for income tax under Part I of the Income Tax Act.

The Fund is required to include in its income for each taxation year all interest that accrues to it to the end of the year, or becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing its income for a preceding taxation year.

Upon the actual or deemed disposition of a security held in the Portfolio as capital property, the Fund will realize a capital gain (or capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such security to the Fund. The Fund intends to treat any gains or losses on the Portfolio as capital gains or losses other than gains or losses with respect to derivatives other than derivatives used to hedge capital assets.

The Fund is required to compute all amounts, including interest, cost of property and proceeds of disposition, in Canadian dollars for purposes of the Income Tax Act. As a consequence, the amount of income, expenses and capital gains or capital losses may be affected by changes in the value of foreign currency relative to the Canadian dollar. Substantially all of the Portfolio will be hedged to the Canadian dollar to address the foreign currency exposure of the Fund.

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

### **11.2 Taxation of Unitholders**

A Unitholder will generally be required to include in computing income for a particular taxation year of the Unitholder such portion of the Net Income of the Fund for a taxation year, including the taxable portion of Net Capital Gains, as is paid or becomes payable to the Unitholder (whether in cash or in Units) in that particular taxation year. The non-taxable portion of the Fund's Net Capital Gains that are paid or become payable to a Unitholder in a taxation year will not be included in computing the Unitholder's income for the year. Any other amount in excess of the Unitholder's share of the Net Income of the Fund for a taxation year that is paid or becomes payable to the Unitholder in the year will not generally be included in the Unitholder's income for the year but will reduce the adjusted cost base of the Unitholder's Units. To the extent that the adjusted cost base of a Unit would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Unitholder from the

disposition of the Unit and the Unitholder's adjusted cost base will be increased by the amount of such deemed capital gain.

Provided that appropriate designations are made by the Fund, such portion of (i) the net realized taxable capital gains of the Fund, (ii) the foreign source income of the Fund and foreign taxes eligible for the foreign tax credit, and (iii) the taxable dividends received or deemed to be received by the Fund on shares of taxable Canadian corporations, as is paid or becomes payable to a Unitholder, will effectively retain its character and be treated as such in the hands of the Unitholder for purposes of the Income Tax Act. To the extent that amounts are designated as taxable dividends from taxable Canadian corporations, the normal gross-up and dividend tax credit rules will apply. An enhanced tax credit may be available to individual Unitholders in respect of "eligible dividends". A Unitholder may be entitled to claim a foreign tax credit in respect of foreign taxes designated to such Unitholder in accordance with the detailed rules in the Income Tax Act.

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

The Net Asset Value per Unit will reflect any income and gains of the Fund that have accrued or been realized but have not been made payable at the time Units are acquired. Accordingly, a Unitholder who acquires additional Units, including on the reinvestment of distributions, may become taxable on the Unitholder's share of such income and gains of the Fund.

On the disposition or deemed disposition of a Unit, the Unitholder will realize a capital gain (or capital loss) to the extent that the Unitholder's proceeds of disposition (other than any amount payable by the Fund which represents an amount that is otherwise required to be included in the Unitholder's income as described above), net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Unit. For the purpose of determining the adjusted cost base of Units to a Unitholder, when additional Units are acquired, the cost of the newly acquired Units will be averaged with the adjusted cost base of all Units owned by the Unitholder as capital property immediately before that time. For this purpose, the cost of Units that have been issued as a Distribution or on the reinvestment of a Distribution will generally be equal to the amount of the net income or capital gain distributed to the Unitholder that has been distributed in the form of Units or reinvested in Units. If a Unitholder participates in the distribution reinvestment plan and acquires a Unit from the Fund at a price that is less than the fair market value of the Unit, it is the administrative position of the CRA that the Unitholder must include the difference in income and that the cost of the Unit will be correspondingly increased.

One-half of any capital gain ("taxable capital gain") realized by a Unitholder on the disposition of Units or designated by the Fund in respect of the Unitholder in a taxation year will be included in computing the Unitholder's income for that year and one-half of any capital loss realized by a Unitholder in a taxation year may be deducted from taxable capital gains realized by the Unitholder or designated by the Fund in respect of the Unitholder in accordance with the provisions of the Income Tax Act.

Amounts designated by the Fund to a Unitholder as taxable capital gains or dividends from taxable Canadian corporations or taxable capital gains realized on the disposition of Units may increase the Unitholder's liability for alternative minimum tax.

The exercise of a Warrant will not constitute a disposition of property for purposes of the Income Tax Act and, consequently, no gain or loss will be realized on the exercise of a Warrant. Units acquired by a Unitholder upon the exercise of a Warrant will have a cost to the Unitholder for tax purposes equal to the aggregate of the Subscription Price for such Units and the adjusted cost base, if any, to the Unitholder of the Warrant so exercised. The cost of Units acquired by a Unitholder upon the exercise of a Warrant will be averaged with the adjusted cost base to the Unitholder of all other Units held at the time as capital property to determine the adjusted cost base of each such Unit to the Unitholder.

Upon the disposition of a Warrant by a Unitholder, other than pursuant to the exercise thereof, the Unitholder will realize a capital gain (or capital loss) to the extent that the proceeds of disposition, net of reasonable costs of disposition, exceed (or are exceeded by) the adjusted cost base, if any, of the Warrant to the Unitholder. Upon the expiry of an unexercised Warrant, a Unitholder will realize a capital loss equal to the adjusted cost base, if any, of the Warrant to the Unitholder. One-half of such a capital gain will be included in computing the Unitholder's income, and one-half of such a capital loss may be deducted against taxable capital gains in accordance with the detailed rules in the Income Tax Act.

## **12.0 REMUNERATION OF DIRECTORS, OFFICERS, IRC AND TRUSTEES**

The Manager is paid the Management Fee as disclosed in section 8.1.1 of this Annual Information Form. The directors of the Manager do not receive any director's fees from the Fund. The Fund pays the fees of the IRC, being \$10,000 per member per annum, as well as expenses incurred by the IRC and directors on behalf of the Fund. No expenses were paid in 2008.

The Trustee, in its capacity as such, is entitled to receive fees from the Fund and is entitled to be reimbursed by the Fund for all expenses which it reasonably incurs in connection with the activities of the Fund.

For the year ended December 31, 2008, the Trustee was paid an aggregate amount of \$14,324 on account of its fees and expenses incurred in its capacity as Trustee of the Fund.

## **13.0 MATERIAL CONTRACTS**

The Fund and/or the Manager, on behalf of the Fund, are party to the Declaration of Trust, the Management Agreement, the Advisory Services Agreement, the Portfolio Management Agreement and the Custodian Agreement. Copies of these material contracts may be accessed by prospective or existing Unitholders at [www.sedar.com](http://www.sedar.com) under the Fund's profile. They are also available at the Fund's office during normal business hours. Details regarding each of these contracts are provided in section 1.1 in the case of the Declaration of Trust, in section 13.1 in the case of the Warrant Indenture, and in section 8 in the case of the other contracts.

### **13.1 Warrant Indenture**

Computershare Trust Company of Canada has been appointed the Warrant Agent of the Fund to receive subscriptions and payments from holders of Warrants, to act as registrar and transfer agent for the Warrants and to perform certain services relating to the exercise and transfer of Warrants pursuant to the Warrant Indenture.

The Fund will pay to the Warrant Agent, from time to time, reasonable remuneration for its services under the Warrant Indenture and will reimburse the Warrant Agent for all reasonable expenses, disbursements and advances.

The Warrant Agent may resign by giving the Fund not less than 90 days prior written notice or such shorter prior notice as the Fund may accept as sufficient. The Fund may remove the Warrant Agent and appoint a new warrant agent by giving not less than 90 days prior written notice or such shorter prior notice as the Warrant Agent may accept as sufficient. The holders of Warrants also have the power, at any time, to remove the Warrant Agent and appoint a new warrant agent, by Extraordinary Resolution of Warrantholders.

## **14.0 OTHER MATERIAL INFORMATION**

### **14.1 Loan Facility**

In order to provide the Portfolio Manager with the ability to use leverage to enhance the return of the Portfolio, the Fund may borrow pursuant to loan facilities or otherwise. The Fund may also add leverage to the Portfolio by utilizing other strategies, including securities lending and repurchase agreements.

Leverage permits the Manager, on behalf of the Fund, to borrow monies or employ other forms of leverage to purchase additional securities in accordance with the Investment Guidelines and Investment Restrictions of the Fund. The Manager, on behalf of the Fund, intends to use leverage, when it considers market conditions are appropriate, to attempt to increase the potential returns of the Fund by taking advantage of the spread between the potential return on additional investments in the Portfolio and the cost of borrowing the purchase price for such investments. The use of leverage to enhance returns on the Portfolio may result in losses or a decrease in net cash Distributions to Unitholders. The Manager anticipates that the Fund will be required to provide a security interest in some or all of its assets in favour of the lender or other parties to secure such borrowings or other leverage. Such securities lending and other repurchase agreements must qualify as “securities lending agreements” for purposes of the Income Tax Act, as described under section 10.3.

The aggregate amount of leverage for investment purposes may not exceed 35% of the Total Assets of the Fund at the time of borrowing or other transaction entered into. In the event that the total amount borrowed (or otherwise subject to leverage) for investment purposes by the Fund exceeds 40% of the Total Assets of the Fund, the Principal Investment Advisor will reduce such indebtedness or other leverage on an orderly basis as soon as practicable so that the amount borrowed or otherwise subject to leverage for investment purposes does not exceed such limit.

In addition to leverage for investment purposes, the Fund may borrow 2.5% of its Total Assets determined at the time of borrowing for working capital purposes.

### **14.2 Risk Factors**

Certain risk factors relating to the Fund, the Units and the Warrants are described below. Additional risks and uncertainties not currently known to the Manager, or that are currently considered immaterial, may also impair the operations of the Fund. If any such risk actually occurs, the business, financial condition, liquidity or results of operations of the Fund and the ability to the Fund to make distributions on the Units, could be materially adversely affected.

#### *No Assurance of Achieving Investment Objectives or Making Distributions*

There is no assurance that the Fund will be able to achieve its Investment Objectives. Furthermore, there is no assurance that the Fund will be able to pay Distributions in the short or long term, nor is there any assurance that the Net Asset Value will be preserved. Changes in the relative weightings between the various types of investment vehicles making up the Fund Investments can affect the overall yield to

Unitholders. The distributions received by the Fund from Fund Investments may vary from month to month and certain of these issuers may pay distributions less frequently than monthly, with the result that revenue generated by the Fund Investments and available for distribution to Unitholders may vary substantially. To the extent necessary, Fund Investments will be sold in order that distributions can be paid to Unitholders at the distribution rate then in effect.

#### *Dilution to Existing Unitholders*

If a Unitholder does not exercise or elects to sell the Unitholder's Warrants, then the value of the Units held by that Unitholder may be diluted as a result of the exercise of Warrants by others.

#### *Fluctuations in Net Asset Value*

The Net Asset Value and the funds available for distribution will vary according to, among other things, the value of the securities held in the Portfolio, which depend, in part, upon the performance of the issuers of such securities, the performance of the preferred securities and debt markets generally, interest rates, and foreign currency exposure. Additionally, external economic forces can affect the competitive strength and profitability of the businesses represented by these securities which could significantly affect the value of such securities. Fluctuations in the market values of the securities held in the Portfolio may occur for a number of reasons beyond the control of the Portfolio Manager.

Units may trade in the market at a discount or premium to the Net Asset Value per Unit. If Units trade at a premium to the Net Asset Value per Unit, there can be no assurance that additional offerings of Units will not have the effect of reducing or eliminating such premium.

#### *Recent Global Financial Developments*

Global financial markets have experienced a sharp increase in volatility during recent months. This has been, in part, the result of the revaluation of assets on the balance sheets of international financial institutions and related securities. This has contributed to a reduction in liquidity among financial institutions and has reduced the availability of credit to those institutions and to the issuers who borrow from them. While central banks as well as global governments are attempting to restore much needed liquidity to the global economies, no assurance can be given that the combined impact of the significant revaluations and constraints on the availability of credit will not materially and adversely affect economies around the world in the near to medium term. Some of these economies may experience significantly diminished growth and some may suffer a recession. These market conditions and unexpected volatility or illiquidity in financial markets may also adversely affect the prospects of the Fund and the value of the Fund Investments. A substantial drop in the North American equities markets could be expected to have a negative effect on the Fund.

#### *Preferred Securities and Debt Securities*

The Portfolio will hold investments in preferred and debt securities which involve risks of default or deferral on dividends, interest and principal and price changes due to factors such as general economic conditions and an issuer's creditworthiness. Preferred securities are typically subordinated to bonds and other debt instruments in a company's capital structure and, therefore, will be subject to greater credit risk than those debt instruments. In addition, the Portfolio may include preferred and debt securities which may entail greater potential price volatility and may be less liquid than higher rated instruments. They may also be more susceptible to real or perceived adverse economic and competitive industry conditions than higher rated securities. Although the Fund is prohibited from investing in securities which do not

have an Investment Grade rating at the time of purchase, there can be no assurance that the securities held by the Fund will continue to have an Investment Grade rating.

Call risk is the risk that an issuer will exercise its right to pay principal on an obligation held by the Fund earlier than expected. This may happen when there is a decline in interest rates. Under these circumstances, the Fund may be unable to recoup all of its initial investment and will also suffer from having to invest in lower yielding securities. Preferred securities frequently have call features that allow the issuer to repurchase the security prior to its stated maturity.

Extension risk is the risk that an issuer will exercise its right to pay principal on an obligation held by the Fund later than expected. This may happen when there is a rise in interest rates. Under these circumstances, the value of the obligation will decrease, and the Fund will also suffer from the inability to invest in higher yielding securities.

Generally, holders of preferred shares (such as the Fund) have no voting rights with respect to the issuing company unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred shareholders may be granted voting rights which may entitle such holders to elect a number of directors to the issuer's board. Generally, once all the arrears have been paid, the preferred shareholders no longer have voting rights. In the case of certain hybrid preferred securities, holders generally have no voting rights except: (i) if the issuer fails to pay dividends for a specified period of time; or (ii) if a declaration of default occurs and is continuing. In such an event, rights of preferred security holders generally would include the right to appoint and authorize a trustee to enforce the trust or special purpose entity's rights as a creditor under the agreement with its operating company.

From time to time, preferred securities have been, and may in the future be, offered having features other than those described herein. The Fund reserves the right to invest in these securities if the Portfolio Manager believes that doing so would be consistent with the Fund's Investment Strategy and Investment Restrictions. Because the market for these instruments would be new, the Fund may have difficulty disposing of them at a suitable price and time. In addition to limited liquidity, these instruments may present other risks, such as high price volatility.

#### *Composition of Fund Investments*

The composition of the Fund Investments taken as a whole may vary widely from time to time and may be concentrated by type of security, commodity, industry or geography, resulting in the Fund Investments being less diversified than anticipated. Overweighting investments in certain sectors or industries involves risk that the Fund will suffer a loss because of declines in the prices of securities in those sectors or industries.

#### *Securities Lending and Repurchase Agreements*

The Fund may engage in securities lending and repurchase agreements. Although the Fund will receive collateral for the loans and such collateral is marked to market, the Fund will be exposed to the risk of loss should the borrower default on its obligation to return the borrowed securities and the collateral is insufficient to reconstitute the portfolio of loaned securities.

#### *Use of Leverage*

One element of the Fund's investment strategy is the utilization of borrowings or the employment of other forms of leverage to make investments in additional instruments. The obligations under loan facilities or other forms of leverage may be secured by the assets of the Fund. By adding additional leverage, these

strategies have the potential to enhance returns but also involve additional risks. There can be no assurance that the leveraging strategy employed for the Fund will enhance returns. The use of leverage may reduce returns (both distributions and capital) to Unitholders. If the securities in the Portfolio suffer a decrease in value, the leverage component will cause a decrease in value of the Portfolio in excess of that which would otherwise be experienced. In addition, the cost of leverage may rise, potentially reducing income distributable to Unitholders. The aggregate amount of leverage for investment purposes may not exceed 35% of the Total Assets of the Fund at the time the borrowing or other transaction is entered into. In the event that the total amount borrowed (or otherwise subject to leverage) for investment purposes by the Fund exceeds 40% of the Total Assets of the Fund, the Principal Investment Advisor will reduce such indebtedness or other leverage on an orderly basis as soon as practicable so that the amount borrowed or otherwise subject to leverage for investment purposes does not exceed such limit.

The interest expense and banking fees incurred in respect of loan facilities, or expenses and fees incurred in respect of other forms of leverage, may exceed the incremental capital gains/losses and income generated by the incremental investments for the Investment Grade Portfolio. In addition, the Fund may not be able to renew a loan facility or other form of leverage on acceptable terms. The Portfolio Manager expects that the Fund may be leveraged at the maximum amount permitted by the Investment Restrictions.

#### *Nature of Units*

While it is an investment objective of the Fund that the Net Asset Value per Unit be preserved, the Units are not debt instruments and there is no obligation or guarantee to return the initial subscription price. The Units represent a fractional beneficial interest in the assets of the Fund. Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring “oppression” or “derivative” actions.

#### *Changes in Legislation*

There can be no assurance that certain laws applicable to the Fund including income tax laws, government incentive programs and the treatment of mutual fund trusts under the Income Tax Act or the interpretation and application of the foregoing will not be changed in a manner which adversely affects the distributions received by the Fund or by the Unitholders.

#### *Reliance on the Portfolio Manager and Key Personnel and on the Principal Investment Advisor*

The Portfolio Manager will manage the Fund in a manner consistent with the Investment Objectives, Investment Strategies and Investment Restrictions of the Fund. The officers of the Portfolio Manager who will be primarily responsible for the management of the Portfolio have extensive experience in managing investment portfolios, however there is no certainty that such individuals will continue to be employees of the Portfolio Manager until the termination of the Fund.

Performance of the Portfolio will also be dependent on the Principal Investment Advisor, which provides advice to the Fund with regard to currency hedging and will monitor the amount of borrowing and other leverage of the Fund.

#### *Foreign Currency Exposure*

The Net Asset Value is measured in Canadian dollars and payments to Unitholders will be made in Canadian dollars. However, most of the investments in the Portfolio, at any time, will consist of securities denominated in U.S. dollars. Accordingly, the Net Asset Value and the Fund’s ability to make payments

to Unitholders may be affected by fluctuations in the value of the Canadian dollar relative to the United States dollar. Although it is expected that substantially all of the Portfolio will be hedged to the Canadian dollar to address the foreign currency exposure of the Fund, there can be no assurance that such hedging strategies will be successful.

#### *Foreign Issuers*

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

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

Interest rate risk is the risk that debt obligations and preferred securities will decline in value because of changes in interest rates. Generally, debt securities will decrease in value when interest rates rise and increase in value when interest rates decline. Net Asset Value may fluctuate with interest rate changes and the corresponding changes in the value of the securities in the Portfolio. The market price of Units may be affected by the level of interest rates prevailing from time to time.

#### *Illiquid Securities*

There is no assurance that an adequate market will exist for the Portfolio Securities. The Fund cannot predict whether the Fund Investments will trade at a discount to, a premium to, or at their respective net asset values. In addition, if the Portfolio Manager is unable, or determines that it is inappropriate to dispose of some or all of the Fund Investments prior to the termination of the Fund, Unitholders may, subject to applicable laws, receive distributions of Fund Investments *in specie* upon the termination of the Fund, for which there may be an illiquid market or which may be subject to resale restrictions of indefinite duration.

#### *Derivatives and Hedging Risk*

The Portfolio may use derivatives for any purpose including, among other things, as a substitute for taking a position in the underlying asset or as part of a strategy designed to reduce or increase exposure to other risks, such as interest rate or currency risk. The Portfolio's use of derivative instruments involves risks different from, and possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives are subject to a number of risks, such as liquidity risk, interest rate risk, market risk, credit risk, leveraging risk, counterparty risk and management risk. They also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index. If the Fund invests in a derivative instrument, it could lose more than the principal amount invested. Hedging with derivatives may not always work and it could restrict the Fund's ability to increase in value and adds to the risk of investing in Units. There is also no guarantee that the Fund will be able to obtain or close out a derivative contract when it needs to which could prevent the Fund from making a profit or limiting a loss. In addition, the Fund's success in using hedge instruments is subject to the Portfolio Manager's ability to predict correctly changes in the relationships of such hedge instruments to the Portfolio, and there can be no assurance that the Portfolio Manager's judgment in this respect will be accurate. Consequently, the use of hedging

techniques might result in a poorer overall performance for the Fund, whether or not adjusted for risk, than if the Fund had not hedged its portfolio holdings.

### *Conflicts of Interest*

The Manager, the Principal Investment Advisor and the Portfolio Manager, their respective directors and officers and their respective affiliates and associates may engage in the promotion, management or investment management of other funds, including funds which invest primarily in securities to be held in the Portfolio. Investment decisions for the Portfolio will be made independently from those of other accounts advised by the Portfolio Manager. If such other accounts are prepared to invest in, or desire to dispose of, securities at the same time as the Portfolio, available investments or opportunities for sales will be allocated equitably to each entity. In some cases, this procedure may adversely affect the size of the position obtained for or disposed of by the Portfolio or the price paid or received by it.

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

In addition, the Principal Investment Advisor and the Portfolio Manager and/or its affiliates, in connection with their other business activities, may acquire material non-public confidential information that may restrict the Principal Investment Advisor and the Portfolio Manager from purchasing assets or selling assets for itself or its clients (including the Fund) or otherwise using such information for the benefit of its clients or itself.

### *Change or Withdrawal of Rating on the Units of the Fund*

There can be no assurance that the rating on the Units of the Fund of P-2f by Standard & Poor's will remain in effect or will not be reduced. If the rating is withdrawn or reduced, there may be an adverse effect on the market price of the Units.

### *Status of the Fund*

As the Fund is not a mutual fund as defined under Canadian securities laws, the Fund is not subject to the Canadian policies and regulations that apply to open-end mutual funds. The Fund is a mutual fund trust for purposes of the Income Tax Act.

### *Trading Price of Units*

Units may trade in the market at a discount to the Net Asset Value per Unit and there can be no assurance that Units will trade at a price equal to the Net Asset Value per Unit. Units will be redeemable at 100% of the Net Asset Value per Unit on the applicable Annual Redemption Date less any costs associated with the redemption, including brokerage costs. While the redemption right provides Unitholders the option of annual liquidity at the Net Asset Value per Unit, there can be no assurance that it will reduce trading discounts.

### *Loss of Investment*

An investment in the Fund is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

### *Legal and Statutory Rights*

The Portfolio Manager is a corporation formed under the laws of the State of California. The foreign organization and offices of the Portfolio Manager and the fact that all or a substantial portion of its assets are situated outside of Canada may make it more difficult to enforce legal rights against the Portfolio Manager than if it were organized and resident in Canada. Although the custodian of the Portfolio is in Canada and some of the assets of the Fund may be held in Canada, the majority of the Fund's assets may be held in accounts with sub-custodians in other jurisdictions. Accordingly, there may be additional defences available to any judgement obtained by the Fund in Canada that may affect enforcement in any such jurisdictions.

### *Taxation of the Fund*

In determining its income for tax purposes, the Fund intends to treat gains and losses on disposition of securities in the Portfolio on capital account other than gains or losses in respect of derivatives other than derivatives used to hedge a capital asset. The CRA's practice is not to grant an advance income tax ruling on the characterization of items as capital gains or income and no advance ruling has been requested or obtained. If some or all of the transactions treated by the Fund as being on capital account were instead treated on income account, after-tax returns to Unitholders could be reduced.

On October 31, 2003 the Department of Finance announced a Tax Proposal relating to the deductibility of losses under the Tax Act. Under this Tax Proposal, a taxpayer will be considered to have a loss from a business or property for a taxation year only if, in that year, it is reasonable to assume that the taxpayer will realize a cumulative profit from the business or property during the time that the taxpayer has carried on, or can reasonably be expected to carry on, the business or has held, or can reasonably be expected to hold, the property. Profit, for this purpose, does not include capital gains or capital losses. If such Tax Proposal were to apply to the Fund, deductions that would otherwise reduce the Fund's taxable income could be denied, with after-tax returns to the Unitholders reduced as a result. It will be necessary for the Fund to monitor its activities and this Tax Proposal, which is proposed to apply to taxation years beginning after 2004. On February 23, 2005, the Minister of Finance (Canada) announced that a more modest legislative initiative to replace the Tax Proposals of October 31, 2003 would be released for comment at an early opportunity. No such legislative proposal has been released to date.

If the Fund ceases to qualify as a "mutual fund trust" under the Income Tax Act, the income tax considerations described under the heading "Income Tax Considerations" would be materially and adversely different in certain respects. There can be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts will not be changed in a manner that adversely affects the Unitholders. Currently, a trust will be deemed not to be a mutual fund trust if it is established or maintained primarily for the benefit of non-residents unless all or substantially all of its property is property other than taxable Canadian property as defined in the Income Tax Act. On September 16<sup>th</sup>, 2004, the Minister of Finance (Canada) released Tax Proposals (the "September 16<sup>th</sup> Tax Proposals") which propose that a trust would lose its status as a mutual fund trust if the aggregate fair market value of all units issued by the trust held by one or more non-resident persons or partnerships that are not Canadian partnerships, or any combination thereof, is more than 50% of the aggregate fair market value of all units issued by the trust where, at that time or any previous time, more than 10% (based on fair

market value) of the trust's property is taxable Canadian property or certain other types of property. If the September 16<sup>th</sup> Tax Proposals are enacted as proposed, and if these circumstances applied to the Fund, the Fund would thereafter cease to be a mutual fund trust and the income tax considerations as described herein would be materially and adversely different in certain respects. The September 16<sup>th</sup> Tax Proposals do not currently provide any means of rectifying a loss of mutual fund trust status. On December 6, 2004, the Minister of Finance (Canada) indicated that the September 16<sup>th</sup> Tax Proposals are being further considered.

### *Significant Redemptions*

If a significant number of Units are redeemed, the trading liquidity of the Units could be significantly reduced. In addition, the expenses of the Fund would be spread among fewer Units resulting in a potentially lower Distribution per Unit. The Manager has the ability to terminate the Fund if, in its opinion, the Net Asset Value is reduced as a result of redemptions or otherwise so that it is no longer economically feasible to continue the Fund and it would be in the best interests of Unitholders to do so.

### **14.3 Accounting Changes**

In 2005, changes to Canadian GAAP were implemented by the Accounting Standards Board of the Canadian Institute of Chartered Accountants with the introduction of section 3855 *Financial Instruments – Recognition and Measurement*. Section 3855 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Section 3855 requires, among other things, that public securities be priced at the closing bid for long positions and the closing ask price for short positions. Currently, most securities are valued by investment funds at the last trade or closing price. The Canadian securities regulatory authorities (“CSRA”) acknowledged that the new standard resulted in significant difficulties for investment funds when calculating net asset value for purposes other than financial statements. Amendments to National Instrument 81-106 *Investment Fund Continuous Disclosure* (“NI 81-106”), in force on September 8, 2008, permit investment funds to have two different net asset values: one for financial statement purposes, which is to be prepared in accordance with Canadian GAAP (referred to as “net assets” under NI 81-106) and another for all other purposes, including unit pricing (referred to as “net asset value” under NI 81-106). The amendments to NI 81-106 also require that the notes to the financial statements disclose the net asset value per security as at the date of the financial statements compared to the net assets per security as shown on the statement of net assets and to provide an explanation of the differences between these amounts.

**ANNUAL INFORMATION FORM FOR  
FLAHERTY & CRUMRINE INVESTMENT GRADE FIXED INCOME FUND**

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**ADDITIONAL INFORMATION:**

Additional information about the Fund is available in the Fund's management report of fund performance and financial statements, copies of these documents may be obtained at no cost:

- By calling (416) 642-6000 or toll-free at 1-866-642-6001,
- Direct from your dealer, or
- By email at [info@bromptongroup.com](mailto:info@bromptongroup.com).

Copies of these documents and other information about the Fund, such as information circulars and material contracts, are also available on the Fund's website at [www.bromptongroup.com](http://www.bromptongroup.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).