No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and only by persons permitted to sell these securities.

Initial Public Offering PROSPECTUS November 25, 2004

Flaherty & Crumrine INVESTMENT GRADE FIXED INCOME FUND

Maximum **$450,000,000** (18,000,000 Units)

Flaherty & Crumrine Investment Grade Fixed Income Fund is an investment trust established under the laws of the Province of Alberta. The Fund proposes to offer transferable, redeemable Units at a price of $25.00 per Unit. The Fund's investment objectives are to:

(i) provide Unitholders with a stable stream of monthly distributions targeted to be $0.1354 per Unit ($1.625 per annum to yield 6.5% on the original subscription price of $25.00 per Unit);

(ii) mitigate the impact of significant interest rate increases on the value of the Investment Grade Portfolio;

(iii) preserve the Net Asset Value per Unit; and

(iv) enhance the total return per Unit by actively managing the Investment Grade Portfolio.

To provide the Fund with the ability to meet its investment objectives, the Fund will invest the net proceeds of the Offering together with proceeds from borrowings in the Investment Grade Portfolio. The Investment Grade Portfolio of fixed income securities will be actively managed and will consist primarily of various corporate debt securities and hybrid preferred securities of North American issuers. At the time of purchase, all of the fixed income securities held in the Investment Grade Portfolio will be rated Investment Grade. While it is expected that initially the majority of the Investment Grade Portfolio will consist of debt securities, the Portfolio Manager intends to actively manage the allocation between preferred securities and debt securities in order to enhance the total return per Unit by taking advantage of pricing anomalies and market inefficiencies. Initially, the Portfolio Manager anticipates that over 80% of the Investment Grade Portfolio will be comprised of securities of companies in the banking, financial services, insurance and utilities industries. Under normal market conditions, a hedging strategy, the "Safety Net Hedge", will be employed which is intended to mitigate the impact of significant interest rate increases on the net asset value of the Investment Grade Portfolio, while permitting it to benefit from declines in interest rates. Since most of the investments in the Investment Grade Portfolio will consist of securities denominated in U.S. dollars, substantially all of the Investment Grade Portfolio will be hedged to the Canadian dollar at all times. See "Investment Guidelines".

The Units of the Fund have received a rating of P-2f by Standard & Poor's.

Flaherty & Crumrine Incorporated, headquartered in Pasadena, California, will be retained as portfolio manager to provide investment advisory and portfolio management services for the Fund. Since 1983, the Portfolio Manager has specialized in the active management of preferred securities and debt instruments, employing interest rate hedging activities such as the Safety Net Hedge. Flaherty & Crumrine Preferred Income Fund and Flaherty & Crumrine Preferred Income Opportunity Fund, two publicly traded closed-end funds in the U.S. managed by the Portfolio Manager using similar investment strategies, have achieved Morningstar 4 and 5-Star overall ratings respectively, as well as either 4 or 5-Star ratings for the 3, 5, and 10-year periods. The Portfolio Manager had aggregate assets under management, as of September 30, 2004, in excess of U.S.$3.2 billion. See "The Portfolio Manager".

Brompton FFI Management Limited is the manager of the Fund and will provide all administrative services required by the Fund. The Manager is a member of the Brompton Group of companies which provides specialized financial products and services to corporate, institutional and individual clients. Brompton currently manages eight public investment funds and private capital with total assets of approximately $1.6 billion. The Manager will retain Brompton Capital Advisors Inc. as the principal investment advisor of the Fund who will be responsible to the Fund for the services provided by the Portfolio Manager. BCA will monitor the provision of the investment advisory and portfolio management services for the Fund and will provide advice to the Fund with regard to currency hedging. See "The Manager".

BROMPTON GROUP

Units may be surrendered for redemption not more than 45 Business Days and at least 20 Business Days prior to the second last Business Day in November each year. Unitholders whose Units are redeemed will receive a redemption price equal to 100% of Net Asset Value per Unit for each Unit so redeemed on the Annual Redemption Date minus any costs of funding the redemption including all brokerage fees, commissions and other costs incurred in liquidating securities held in the Investment Grade Portfolio. See "Redemption of Units — Annual Redemption" and "Valuation, Total Assets and Net Asset Value." Units may also be surrendered for redemption on a monthly basis. See "Redemption of Units — Monthly Redemption".

Price: $25.00 per Unit

	Price to Public	Agents' Fee	Net Proceeds to the Fund[1]
Per Unit	$ 25.00	$ 1.3125	$ 23.6875
Maximum Offering[2][3]	$450,000,000	$23,625,000	$426,375,000
Minimum Offering[3]	$150,000,000	$ 7,875,000	$142,125,000

Notes:

(1) Before deducting the expenses of the Offering, estimated to be an aggregate of $825,000, which, together with the Agents' fee, will be paid by the Fund from the proceeds of the Offering.

(2) There will be no Closing of the Offering unless a minimum of 6,000,000 Units are sold. Proceeds from subscriptions will be held by the Agents in trust in a segregated account until the Closing of the Offering. If subscriptions for a minimum of 6,000,000 Units have not been received by December 15, 2004, the Offering may not continue without the consent of the Canadian securities regulators and those who have subscribed on or before such date. See "Plan of Distribution".

(3) The Fund has granted to the Agents an Over-Allotment Option, exercisable for a period of 30 days from the Closing of the Offering to offer additional Units in an amount up to 15% of the aggregate number of Units sold on the Closing of the Offering on the same terms as set forth above, to cover over-allotments, if any. If the Over-Allotment Option is exercised in full, under the maximum Offering, the price to the public, Agents' fee and net proceeds will be $517,500,000, $27,168,750 and $490,331,250, respectively. This prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Units issuable on the exercise of the Over-Allotment Option. See "Plan of Distribution".

There is currently no market through which the Units may be sold and purchasers may not be able to resell securities purchased under the prospectus. The TSX has conditionally approved the listing of the Units. Listing is subject to the Fund fulfilling all of the requirements of the TSX on or before February 23, 2005, including distribution of the Units to a minimum number of public holders. The terms of the Offering were established through negotiation between the Agents and the Manager on behalf of the Fund.

There can be no assurance that the Fund will be able to achieve its investment objectives. 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 and who can withstand the effect of a distribution not being made in any period. There are certain risk factors associated with an investment in Units. See "Risk Factors".

In the opinion of Stikeman Elliott LLP, counsel to the Fund, and Osler, Hoskin & Harcourt LLP, counsel to the Agents, provided that the Fund qualifies as a "mutual fund trust" within the meaning of the Tax Act, the Units offered hereby will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans or registered education savings plans. The Units will constitute foreign property for purposes of the tax imposed under Part XI of the Tax Act.

The Fund is not a trust company and, accordingly, is not registered under the trust company legislation of any jurisdiction. The Fund is not a "mutual fund" as defined in the securities legislation applicable in certain provinces and does not operate in accordance with the requirements of Canadian securities regulation applicable to mutual funds. Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under provisions of that Act or any other legislation.

RBC Dominion Securities Inc., CIBC World Markets Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc., National Bank Financial Inc., TD Securities Inc., HSBC Securities (Canada) Inc., Canaccord Capital Corporation, Desjardins Securities Inc., First Associates Investments Inc., Raymond James Ltd., Dundee Securities Corporation, Acadian Securities Incorporated, IPC Securities Corporation, Newport Securities Inc., Research Capital Corporation and Wellington West Capital Inc., as agents, conditionally offer the Units for sale, subject to prior sale, on a best efforts basis, if, as and when issued, sold and delivered by the Fund in accordance with the conditions contained in the Agency Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Fund by Stikeman Elliott LLP and on behalf of the Agents by Osler, Hoskin & Harcourt LLP. This prospectus also qualifies the distribution to the Manager, the Portfolio Manager and BCA at Closing of rights entitling each of them to receive, upon exercise on or before the last Business Day of each month, payment of the Management Fee or the Portfolio Management Fee for such month in Units.

Subscriptions for Units will be received subject to rejection or allotment in whole or in part and the Fund reserves the right to close the subscription books at any time without notice. The Agents may over-allot or effect transactions as described under "Plan of Distribution". Registrations of interests in and transfers of Units will be made only through the book-based system administered by The Canadian Depository for Securities Limited. A book-entry only certificate representing the Units will be issued in registered form only to CDS or its nominee and will be deposited with CDS on the Closing Date which is expected to occur on or about December 15, 2004 or such later date as the Fund and the Agents may agree, but in any event not later than December 31, 2004. A purchaser of Units will receive a customer confirmation from the registered dealer from or through which the Units are purchased, and will not have the right to receive physical certificates evidencing their ownership in the Units. See "Details of the Offering — Delivery Form and Denomination".

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PROSPECTUS SUMMARY

The following is a summary of the principal features of this Offering and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. Certain capitalized terms used, but not defined, in this summary are defined in the "Glossary of Terms".

The Fund: Flaherty & Crumrine Investment Grade Fixed Income Fund is an investment trust established under the laws of the Province of Alberta pursuant to the Declaration of Trust.

Credit Rating: Units of the Fund have received a rating of **P-2f** by Standard & Poor's. See "Investment Guidelines – Standard & Poor's Fund Ratings" and "Investment Guidelines - The Fund Rating".

Offering: A minimum of 6,000,000 Units and a maximum of 18,000,000 Units.

Amount: A minimum of $150,000,000 and a maximum of $450,000,000.

Price: $25.00 per Unit.

Minimum Subscription: 100 Units ($2,500.00).

Investment Objectives: The Fund's investment objectives are to:

(i) provide Unitholders with a stable stream of monthly distributions targeted to be $0.1354 per Unit ($1.625 per annum to yield 6.5% on the original subscription price of $25.00 per Unit);

(ii) mitigate the impact of significant interest rate increases on the value of the Investment Grade Portfolio;

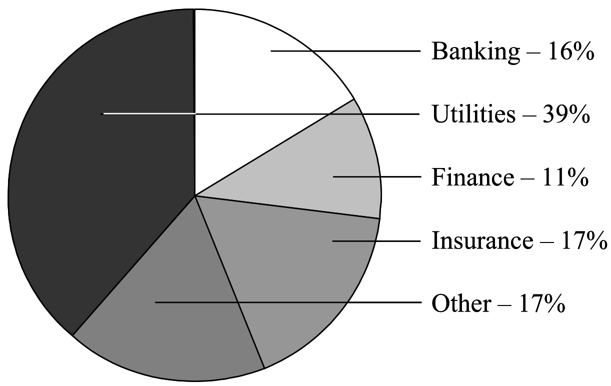
(iii) preserve the Net Asset Value per Unit; and

(iv) enhance the total return per Unit by actively managing the Investment Grade Portfolio.

Investment Strategy and the Investment Grade Portfolio: To provide the Fund with the ability to meet its investment objectives, the Fund will invest the net proceeds of the Offering together with proceeds from borrowings or other forms of leverage in the Investment Grade Portfolio. The Investment Grade Portfolio of fixed income securities will be actively managed and will consist primarily of various corporate debt securities and hybrid preferred securities of North American issuers. The portions of the Investment Grade Portfolio invested in various types of preferred or debt securities are expected to vary from time to time depending upon the Portfolio Manager's assessment of market conditions. At the time of purchase, all of the fixed income securities held in the Investment Grade Portfolio will be rated Investment Grade. While it is expected that initially the majority of the Investment Grade Portfolio will consist of debt securities, the Portfolio Manager intends to actively manage the allocation between preferred securities and debt securities in order to enhance the total return per Unit by taking advantage of pricing anomalies and market inefficiencies. Initially, the Portfolio Manager anticipates that over 80% of the Investment Grade Portfolio will be comprised of securities of companies in the banking, financial services, insurance and utilities industries. Under normal market conditions, a hedging strategy, the "Safety Net Hedge", will be employed which is intended to mitigate the impact of significant interest rate increases on the net asset value of the Investment Grade Portfolio, while permitting it to benefit from declines in interest rates. Since most of the investments in the Investment Grade Portfolio will consist of securities denominated in U.S. dollars, substantially all of the Investment Grade Portfolio will be hedged to the Canadian dollar at all times. See "Investment Guidelines".

The Portfolio Manager currently anticipates that the industry sectors in which the Fund will initially invest will be as illustrated below:

Initial Sector Weighting – Investment Grade Portfolio

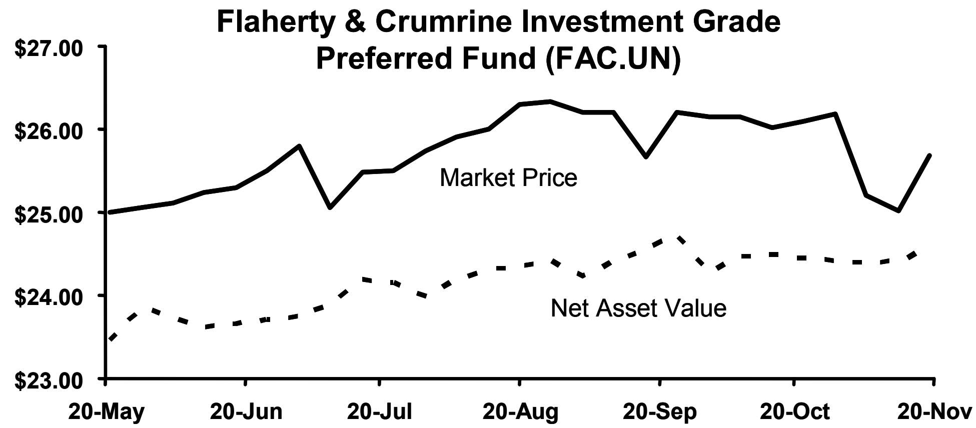


Source: Flaherty & Crumrine Incorporated.

This chart is for illustrative purposes only. There is no assurance that the initial sector weighting of the securities in the Investment Grade Portfolio will be as set forth above. The initial sector weighting will depend on various factors, including the Portfolio Manager's assessment of market conditions at the time of investment.

Flaherty & Crumrine Investment Grade Preferred Fund

Flaherty & Crumrine Investment Grade Preferred Fund (the "FAC fund") is an investment trust managed by an affiliate of the Manager and advised by the Portfolio Manager. The investment strategy employed by FAC fund, including the Safety Net Hedge, is similar to the Investment Strategy to be used by the Fund, except that FAC fund focuses primarily on preferred securities. While it is expected that the majority of the Investment Grade Portfolio will initially consist of debt securities, in the future, the Portfolio Manager will more actively manage the allocation of the Investment Grade Portfolio between corporate debt securities and preferred securities depending upon its assessment of market conditions. In addition, the Fund will employ higher leverage. On May 17, 2004, FAC fund completed its initial public offering of 7,400,000 trust units at a price of $25.00 per trust unit. As of November 19, 2004, the closing price of the units of FAC fund have consistently traded at a premium to their net asset value per unit. As at November 19, 2004 the closing price of the units of FAC fund was $25.69, representing a 4.6% premium to their net asset value. In addition, since inception, FAC fund has paid distributions totalling $0.7292 which is in excess of its investment objectives.



Source: Flaherty & Crumrine Incorporated.

The information in the foregoing graph relates to FAC fund, is historical in nature and is not intended to be, and should not be construed as, an indication of the future trading levels or net asset values associated with Units of the Fund. Although the Fund and FAC fund have similar investment strategies as described above, the Investment Grade Portfolio held by the Fund may differ significantly from the preferred portfolio held by FAC fund.

Portfolio Manager: Flaherty & Crumrine Incorporated was founded in 1983 and as of September 30, 2004, the Portfolio Manager had aggregate assets under management in excess of U.S.$3.2 billion. It is headquartered in Pasadena, California and specializes in the active management of preferred securities and debt securities for institutional investors and publicly traded closed-end funds.

The Portfolio Manager is known for its active interest rate hedging program to manage interest rate risk for its clients, including the Safety Net Hedge.

In addition to the Flaherty & Crumrine Investment Grade Preferred Fund, the Portfolio Manager also manages the portfolios of four publicly traded closed-end funds in the U.S. which invest in preferred and debt securities and which employ interest rate hedging strategies, such as the Safety Net Hedge, and have leverage levels similar to that of the Fund. Flaherty & Crumrine Preferred Income Fund and Flaherty & Crumrine Preferred Income Opportunity Fund, two publicly traded closed-end funds in the U.S. managed by the Portfolio Manager using similar investment strategies, have achieved Morningstar 4 and 5-Star overall ratings respectively, as well as either 4 or 5 star ratings for the 3, 5, and 10-year periods. Morningstar, Inc. is a global research firm which provides ratings for investment funds which have at least three years of performance history. In 2003, two additional closed-end funds were launched: the Flaherty & Crumrine/Claymore Preferred Securities Income Fund and the Flaherty & Crumrine/Claymore Total Return Fund. These funds are not yet eligible for rating by Morningstar.

AVERAGE TOTAL RETURNS PER YEAR BASED ON NET ASSET VALUE[(1)]
FOR PERIODS ENDING SEPTEMBER 30, 2004
(Based on monthly data provided by Lipper Inc.)

	One Year	Three Years	Five Years	Ten Years	Since Inception
Flaherty & Crumrine Preferred Income Fund (NYSE: PFD)	5.5%	11.8%	9.9%	10.0%	12.2%[(2)]
Flaherty & Crumrine Preferred Income Opportunity Fund (NYSE: PFO)	5.3%	11.7%	10.2%	10.5%	10.4%[(3)]
Domestic U.S. Investment Grade Bond Funds - Lipper[(4)]	5.9%	7.0%	7.8%	8.0%	7.9%[(2)(5)]

Notes:

(1) Distributions are assumed to be reinvested at net asset value in accordance with Lipper's practice. The indicated rates of return are the historical annual compounded total returns including changes in net asset value and reinvestment of all dividends and distributions, and are net of all expenses of the funds, including management fees. Funds are not guaranteed, their values change frequently and past performance may not be repeated.

(2) Since inception on January 31, 1991.

(3) Since inception on February 13, 1992.

(4) Includes all U.S. Government bond, mortgage bond and term trust and investment grade bond funds in Lipper's closed-end fund database at each point in time.

(5) Domestic U.S. Investment Grade Bond Funds- Lipper return equalled 7.3% for the period January 31, 1992 to September 30, 2004.

Investment Approach: The Portfolio Manager seeks to achieve consistently superior results utilizing active management of the investment portfolio through a combination of:

- intensive credit analysis of current and potential portfolio holdings;
- thorough analysis of securities' terms and structure, with a preference for issues offering attractive, sustainable income over high current yield;
- exploiting pricing inefficiencies within the preferred and debt securities markets; and
- consistent use of hedging strategies to help manage the interest rate risk while avoiding strategies that require anticipating the direction of interest rates.

The Portfolio Manager will pursue a strategy of investing in Investment Grade preferred and debt securities to meet the Fund's investment objectives. It seeks to identify those preferred and debt securities that provide optimal return characteristics relative to risks. Supported by a highly experienced research and trading staff, the Portfolio Manager begins its investment process with a thorough assessment of the creditworthiness of each issuer. It considers the outlook for different industries, sectors, and the economy as a whole in determining portfolio allocations. It weighs the position of each security in an issuer's capital structure relative to the issue's potential return. Using proprietary quantitative models, the Portfolio Manager also evaluates the specific terms of each issue and is generally willing to forego high current income over the short term to hold securities with more favourable call protection. The Portfolio Manager believes that this approach, which is a continuous process, will result in both attractive, sustainable income and long-term preservation of capital.

The Portfolio Manager also seeks to exploit pricing inefficiencies within the preferred and debt securities markets. There have been numerous instances in the past when, for periods of time, the various sectors of the preferred security or debt security asset classes have moved independently of one another, eventually restoring more traditional relationships. The Portfolio Manager believes that, based on its expertise, it is well positioned to take advantage of such inefficiencies and pricing anomalies in the preferred securities and debt securities markets in an attempt to enhance investment performance. The Portfolio Manager anticipates that it will actively reposition the Investment Grade Portfolio both horizontally between issuers and obligors as well as vertically among issuers' preferred and debt securities. The Portfolio Manager will employ proprietary models detailing duration, convexity and guideline compliance to provide real time analysis of the Investment Grade Portfolio.

Finally, the Portfolio Manager will pursue hedging strategies that are intended to mitigate the impact of significant interest rate increases on the Investment Grade Portfolio. Under normal market conditions, all of the preferred and debt securities held by the Fund will be hedged against increases in the level of interest rates, as described more fully below. See "Safety Net Hedge".

Safety Net Hedge:

The Portfolio Manager will engage in hedging strategies in an attempt to protect the Investment Grade Portfolio against adverse changes in the level of interest rates. Under normal market conditions, the Portfolio Manager will employ a Safety Net Hedge, which is a hedging strategy that is intended to mitigate the impact of significant interest rate increases on the net asset value of the Investment Grade Portfolio, while permitting it to benefit from declines in interest rates. The strategy is intended to result in income generated by the Investment Grade 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 anticipates using various hedging instruments and techniques, including entering into futures 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 may occur over an investment horizon. Normally, the Safety Net Hedge is structured to reduce the duration of the Investment Grade 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 duration of the Investment Grade Portfolio 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 Investment Grade Portfolio. While total return 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 Investment Grade Portfolio, the Portfolio Manager believes that the Safety Net Hedge will help the Fund to 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, 100% of the Investment Grade Portfolio will be 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. The Portfolio Manager has employed the Safety Net Hedge strategy in the Flaherty & Crumrine Investment Grade Preferred Fund, in the closed-end funds it manages in the U.S., including the Flaherty & Crumrine Preferred Income Fund and the Flaherty & Crumrine Preferred Income Opportunity Fund, and in certain client accounts since 1992.

Debt Securities:

The debt securities market is a primary source of capital for U.S. corporations and other issuers. Debt securities typically pay either a fixed or variable rate of interest and carry original maturities from 1 to 100 years, although the vast majority of issues are 30 years or shorter. Issues may be either general obligations of the issuer (unsecured debt) or backed by specific assets of the issuer (secured or asset-backed debt). In a typical debt security, the issuer must pay the stated rate of interest for the life of the security and must repay the amount borrowed on its maturity date, or possibly earlier if the security has a put, call, sinking fund or some other early redemption or payment feature.

The corporate debt securities market is significantly larger than the preferred securities market, with approximately U.S.$6.4 trillion in debt outstanding.

In case of default, holders of debt securities have a claim to the assets of the issuer ahead of preferred securities and common stock. For this reason, corporate debt securities generally have a higher credit rating than preferred securities of the same issuer. They also typically yield less than preferred securities, reflecting the higher credit quality, although this yield differential can vary considerably over time.

Hybrid Preferred Securities:

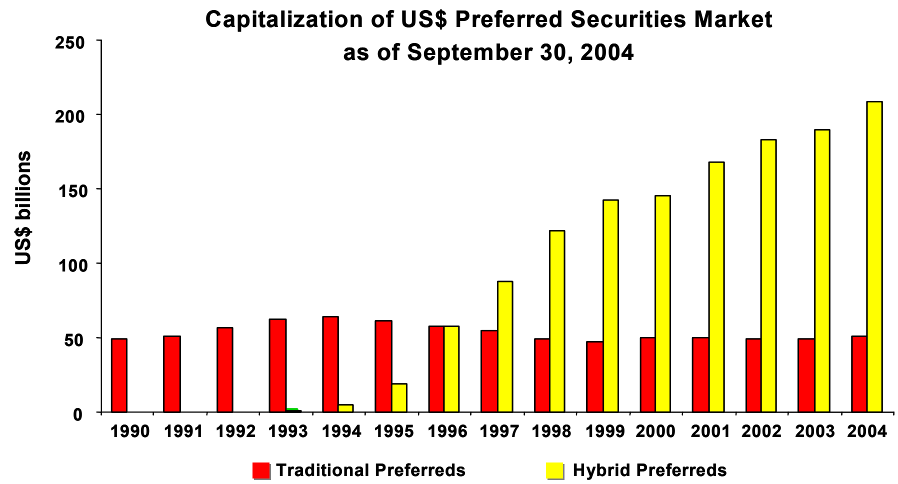
Hybrid preferred securities are typically issued by corporations, generally in the form of interest bearing notes or preferred securities, or by an affiliated business trust of a corporation, generally in the form of beneficial interests in subordinated debentures or similarly structured securities. The hybrid preferred securities market consists of both fixed and adjustable coupon rate securities that are either perpetual in nature or have stated maturity dates. Hybrid preferred securities include but are not limited to:

- Canadian originated preferred securities ("COPrS[SM]");
- Trust originated preferred securities ("TOPrS[R]");
- Monthly income preferred securities ("MIPS[R]");
- Quarterly income bond securities ("QUIBS[R]");
- Quarterly income debt securities ("QUIDS[SM]");
- Quarterly income preferred securities ("QUIPS[SM]");
- Corporate trust securities ("CORTS[R]");
- Public income notes ("PINES[R]");
- Mandatory convertible preferred securities; and
- Other hybrid preferred securities.

COPrS is a service mark and TOPrS is a registered service mark owned by Merrill Lynch & Co., Inc. MIPS is a registered service mark and QUIDS and QUIPS are service marks owned by Goldman, Sachs & Co. QUIBS is a registered service mark owned by Morgan Stanley Dean Witter & Co. CORTS and PINES are registered service marks owned by Salomon Smith Barney Inc.

The U.S. dollar preferred securities market as of September 30, 2004 was approximately U.S.$260 billion comprised of U.S.$209 billion of hybrid preferred securities and U.S.$51 billion of traditional preferred shares.

The hybrid preferred securities market has grown rapidly since it began to develop in the mid-1990s, as illustrated in the following chart:



Source: Flaherty & Crumrine Incorporated.

(1) Includes all U.S. dollar denominated preferred securities.

Distributions: An objective of the Fund is to provide Unitholders with a stable stream of monthly distributions targeted to be $0.1354 per Unit ($1.625 per annum to yield 6.5% on the original subscription price of $25.00 per Unit) to Unitholders of record on or about the last Business Day of each month. Distributions will be paid no later than the 10th Business Day of the following month. The Manager expects that the initial distribution will be payable to Unitholders of record on January 31, 2005. There can be no assurance that the Fund will be able to achieve its monthly distribution objective or make payments on any Distribution Date.

Manager: Brompton FFI Management Limited is the manager of the Fund and will provide all administrative services required by the Fund. The Manager will retain Brompton Capital Advisors Inc. as the principal investment advisor of the Fund who will be responsible to the Fund for the services provided by the Portfolio Manager. BCA will monitor the provision of the investment advisory and portfolio management services for the Fund by the Portfolio Manager and will provide advice to the Fund with regard to currency hedging. See "The Manager".

The Manager is a member of the Brompton Group of companies which provides specialized financial products and services to corporate, institutional and individual clients. Brompton currently manages eight public investment funds and private capital with total assets of approximately $1.6 billion. See "The Manager".

Leverage: The Fund expects to enter into loan facilities in order to add leverage to the Investment Grade Portfolio and may also add leverage by utilizing other strategies, including securities lending and repurchase agreements. 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 Investment Grade Portfolio by taking advantage of the spread between the potential return on additional investments in the Investment Grade Portfolio and the cost of borrowing the purchase price for such investments. **Leverage for investment purposes may only be used in an aggregate amount not to exceed 35% of the Total Assets of the Fund at the time the borrowing or other transaction is entered into.** In addition to leverage for investment purposes, the Fund may borrow up to 2.5% of its Total Assets determined at the time of borrowing for working capital purposes. See "Investment Guidelines – Implementation of Investment Objectives and Investment Strategies – Leverage".

Distribution Reinvestment Plan: Subject to obtaining any necessary regulatory approvals, the Fund will make available to Unitholders the opportunity to reinvest distributions from the Fund in additional Units by participating in the Distribution Reinvestment Plan. See "Distributions and Reinvestment – Distribution Reinvestment Plan".

Redemption of Units: Units may be surrendered annually for redemption not more than 45 Business Days and at least 20 Business Days prior to the second last Business Day in November each year. Unitholders whose Units are redeemed will receive a redemption price equal to 100% of Net Asset Value per Unit for each Unit so redeemed on the Annual Redemption Date minus any costs of funding the redemption including all brokerage fees, commissions and other costs incurred in liquidating securities held in the Investment Grade Portfolio. See "Redemption of Units – Annual Redemption". In calculating Net Asset Value for these purposes, the value of any traded security shall be equal to the latest available bid price for such security as described under "Valuation, Total Assets and Net Asset Value". Units may also be surrendered for redemption on a monthly basis. See "Redemption of Units – Monthly Redemption".

Payment of the redemption price for any annual redemption will be made on or before the tenth Business Day of December, subject to the Manager's right to suspend redemptions in certain circumstances. The Net Asset Value per Unit will vary depending on a number of factors. See "Redemption of Units – Suspension of Redemptions" and "Risk Factors".

Market Purchases of Units: The Declaration of Trust provides that, subject to applicable law, the Fund may, in its sole discretion, from time to time purchase (in the open market or by invitation for tenders) Units for cancellation up to a maximum in any twelve month period of 10% of the number of Units outstanding at the commencement of such period, in all cases at a price per Unit not exceeding the Net Asset Value per Unit on the Valuation Date immediately prior to the date of any such purchase of Units. See "Declaration of Trust – Repurchase of Units".

Use of Proceeds: The net proceeds from the issue of the maximum number of Units offered hereby after payment of the Agents' fee and the offering expenses are estimated to be $425,350,000 ($141,325,000 if the minimum number of Units are issued). The Fund will use the net proceeds of the Offering (including any net proceeds from the exercise of the Over-Allotment Option) together with proceeds from borrowings or other forms of leverage to invest in the Investment Grade Portfolio.

Termination of the Fund: The Fund does not have a fixed termination date but may be terminated upon not less than 90 days' written notice to the Manager from the Trustee with the approval of the Unitholders by an Extraordinary Resolution passed at a duly convened meeting of Unitholders called for the purpose of considering such 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. 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 of the Fund is reduced as the 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. After paying outstanding liabilities, the Fund will distribute its remaining assets *pro rata* to Unitholders. See "Declaration of Trust – Termination of the Fund". The Fund may also be terminated if the Manager resigns and is not replaced.

Registrar, Transfer Agent and Distribution Agent for the Fund:	Computershare Trust Company of Canada
Trustee:	Computershare Trust Company of Canada
Canadian Federal Income Tax Considerations:	A Unitholder will generally be required to include in computing income for a taxation year that part of the net income, including the taxable portion of the net realized capital gains, of the Fund that is paid or becomes payable to the Unitholder by the Fund in that year. To the extent that amounts payable to a Unitholder are designated as taxable capital gains, those amounts will be treated as taxable capital gains realized by the Unitholder. A Unitholder who disposes of Units held as capital property (on redemption or otherwise) will realize a capital gain (or capital loss) to the extent that the 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), net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such Units. See "Canadian Federal Income Tax Considerations". **Each investor should satisfy himself or herself as to the federal, provincial and territorial tax consequences of an investment in Units by obtaining advice from his or her tax advisor**.
Eligibility for Investment:	In the opinion of Stikeman Elliott LLP, counsel to the Fund, and Osler, Hoskin & Harcourt LLP, counsel to the Agents, provided that the Fund qualifies as a "mutual fund trust" within the meaning of the Tax Act, the Units offered hereby will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans or registered education savings plans. The Units will constitute foreign property for purposes of the tax imposed under Part XI of the Tax Act.
Risk Factors:	An investment in Units is subject to certain risk factors, including: (i) there is no assurance that the Fund will be able to achieve its monthly distribution objective, its objective to mitigate the impact of significant interest rate increases on the value of the Investment Grade Portfolio, its objective to preserve the Net Asset Value per Unit or its objective to enhance the total return per Unit, and there is no guarantee that the Investment Grade Portfolio will earn any return. The Investment Grade Portfolio could be subject to losses; (ii) the Net Asset Value per Unit will vary according to, among other things, distributions paid on the Units, the value of the securities held in the Investment Grade Portfolio, the performance of the preferred securities and debt markets generally and interest rates; (iii) Units may trade in the market at a discount to the Net Asset Value per Unit; (iv) the risks of investing in debt securities, hybrid preferred securities and

preferred shares, including default or deferral risk and call and extension risks relating to when an issuer exercises its right to pay interest, dividends or principal on an obligation. All of the securities held in the Investment Grade Portfolio are required to have an Investment Grade rating at the time of purchase, but there is no assurance that such securities will continue to have such a rating;

(v) the risks that the Investment Grade Portfolio could suffer a loss as a result of securities held in the Investment Grade Portfolio being overweighted in certain industries;

(vi) counterparty risks associated with securities lending and repurchase agreements;

(vii) the use of leverage in the Investment Grade Portfolio to enhance yield, the increased cost of leverage due to a rise in short term interest rates may reduce distributions and that the Fund may use the maximum amount of leverage permitted;

(viii) the Fund's lack of operating history and the current absence of a public trading market for the Units;

(ix) Unitholders will not have statutory rights normally associated with ownership of shares of a corporation, nor will Unitholders have creditors' rights;

(x) possible changes in legislation;

(xi) reliance on the Portfolio Manager and key personnel and on BCA;

(xii) the risk that a hedging strategy used by the Portfolio Manager may fail to provide the intended results and, therefore, may result in poorer overall performance for the Fund;

(xiii) fluctuations in the exchange rate between Canadian and U.S. dollars;

(xiv) the risks associated with investing in securities of foreign issuers;

(xv) the risks associated with interest rate changes and the sensitivity of the market price of Units to interest rates;

(xvi) the possibility that the Fund will be unable to acquire or dispose of illiquid securities;

(xvii) the risks of investing in derivative instruments;

(xviii) the risk of suspension, revision or withdrawal of the Standard & Poor's rating of the Units of the Fund;

(xix) potential conflicts of interest;

(xx) the status of the Fund for securities law purposes;

(xxi) 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;

(xxii) the potential unlimited liability of Unitholders;

(xxiii) under a recent Tax Proposal, losses that would otherwise reduce the Fund's taxable income could be denied, with after-tax returns to

Unitholders reduced as a result. See “Canadian Federal Income Tax Considerations”;

(xxiv) the risk that some or all of the Fund’s transactions could be treated on income rather than on capital account; and

(xxv) the possibility that the Fund may cease to qualify as a mutual fund trust for tax purposes.

See “Risk Factors”.

SUMMARY OF FEES AND EXPENSES

The following table contains a summary of the fees and expenses payable by the Fund. For further particulars, see "Fees and Expenses".

Type of Charge	Description
Fee payable to the Agents for selling Units:	$1.3125 per Unit.
Expenses of issue:	The Fund will pay the expenses incurred in connection with the Offering, which are estimated to be an aggregate of $825,000.
Management Fee and Portfolio Management Fee:	As compensation for services rendered to the Fund, the Manager is entitled to receive an annual management fee in an amount equal to 0.35% of the Net Asset Value calculated and payable monthly in arrears plus all applicable taxes. The Management Fee for any month may be paid in cash or Units at the option of the Manager. As compensation for services rendered for the Fund, the Portfolio Manager and BCA are entitled to receive from the Fund an aggregate annual portfolio management fee in an amount equal to 0.70% of the Net Asset Value of the Fund calculated and payable monthly in arrears plus any applicable taxes. The Portfolio Management Fee for any month may be paid in cash or Units, or some combination thereof, at the option of the Portfolio Manager and BCA. See "Fees and Expenses – Management Fee and Portfolio Management Fee".
Ongoing expenses of Fund:	The Fund will pay for all expenses incurred in connection with its operation and administration, estimated to be $375,000 per annum (assuming an offering size of approximately $200 million). See "Fees and Expenses - Ongoing Expenses". The Fund will also be responsible for costs of portfolio transactions and any extraordinary expenses that may be incurred from time to time.
Service Fee:	The Fund will pay to the Manager a Service Fee (calculated quarterly and paid as soon as practicable after the end of each calendar quarter) equal to 0.30% per annum of the Net Asset Value of the Fund, plus any applicable taxes. The Service Fee will be pro rated if payable in respect of a partial calendar quarter. The Service Fee will be applied by the Manager to pay a service fee in an equivalent aggregate amount, plus any applicable taxes, to dealers based on the number of Units held by clients of such dealers at the end of the relevant quarter. See "Fees and Expenses – Service Fee".

GLOSSARY OF TERMS

In this prospectus, the following terms shall have the meanings set forth below, unless otherwise indicated:

"**Agency Agreement**" means the agency agreement dated as of November 25, 2004 among the Fund, the Manager and the Agents.

"**Agents**" means, collectively, RBC Dominion Securities Inc., CIBC World Markets Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc., National Bank Financial Inc., TD Securities Inc., HSBC Securities (Canada) Inc., Canaccord Capital Corporation, Desjardins Securities Inc., First Associates Investments Inc., Raymond James Ltd., Dundee Securities Corporation, Acadian Securities Incorporated, IPC Securities Corporation, Newport Securities Inc., Research Capital Corporation and Wellington West Capital Inc.

"**Annual Redemption Date**" means the second last Business Day of November of each year.

"**Annual Redemption Payment Date**" means the date on or before the tenth Business Day of December, being the day on which payment of the redemption price for Units redeemed pursuant to an annual redemption in that year to be made.

"**BCA**" means Brompton Capital Advisors Inc.

"**Book-Entry Only System**" means the book-based system administered by CDS.

"**Brompton**" means the Brompton Group of companies operating out of its offices in Toronto.

"**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 the Portfolio Manager believes that there will be a liquid market for the resale thereof within such 365-day period.

"**CDS**" means The Canadian Depository for Securities Limited.

"**CDS Participant**" means a participant in CDS.

"**Closing**" means the issuance of Units pursuant to this prospectus on the Closing Date.

"**Closing Date**" means the date of the Closing, which is expected to be on or about December 15, 2004 or such later date as the Manager and the Agents may agree, but in any event not later than December 31, 2004.

"**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 the last asking prices 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).

"**CRA**" means the Canada Revenue Agency and any successor organization.

"**Custodian**" means The Royal Trust Company in its capacity as custodian under the Custodian Agreement.

"**Custodian Agreement**" means the custodian agreement to be entered into on or prior to the Closing Date between the Fund and the Custodian, as it may be amended from time to time.

"**debt securities**" include bonds, debentures, notes and other debt securities of corporate and other issuers, including convertible securities, asset-backed securities, structured notes, commercial paper, zero coupon bonds and Cash and Cash Equivalents.

"**Declaration of Trust**" means the amended and restated declaration of trust governing the Fund dated as of November 25, 2004, as it may be amended from time to time.

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

"Distribution Reinvestment Plan" means the Fund's distribution reinvestment plan, as described under "Distributions and Reinvestment – Distribution Reinvestment Plan", as it may be amended from time to time.

"Distribution Reinvestment Plan Agency Agreement" means the distribution reinvestment plan agency agreement to be entered into on or prior to the Closing Date among the Fund, the Manager and Computershare Trust Company of Canada, in its capacity as the Plan Agent, establishing the Distribution Reinvestment Plan, as it may be amended from time to time.

"**Extraordinary Resolution**" means a resolution passed by the affirmative vote of at least 66 $^2/_3$% of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of approving such resolution.

"Fund" means the Flaherty & Crumrine Investment Grade Fixed Income Fund, an investment trust established under the laws of the Province of Alberta pursuant to the Declaration of Trust.

"**Investment Grade**" in respect of a security means a security, and in respect of an issuer means an issuer, which has at least one of the following ratings: (i) at least BBB- by Standard & Poor's; (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 Grade Portfolio" means the portfolio of fixed income securities acquired by the Fund with the net proceeds of the Offering together with proceeds from borrowings or other forms of leverage.

"**Investment Guidelines**" means the investment objectives, investment strategies and investment restrictions of the Fund set forth in the Declaration of Trust, as described under "Investment Guidelines".

"**Investment Restrictions**" means the investment restrictions of the Fund set forth in the Declaration of Trust restricting the investment activities of the Fund, as described under "Investment Guidelines".

"**Management Agreement**" means the management agreement dated November 25, 2004, between the Trustee and the Manager.

"**Management Fee**" means the management fee payable to the Manager, as more fully described under "Fees and Expenses – Management Fee".

"**Manager**" means the manager of the Fund, Brompton FFI 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 each month, except for the month of November.

"**Monthly Redemption Payment Date**" means the date on or before the tenth Business Day of the month subsequent to the relevant Monthly Redemption Date, being the day on which payment of the monthly redemption price for Units redeemed in the previous month shall be made.

"**Net Asset Value**" means the net asset value of the Fund, as determined by subtracting the aggregate liabilities of the Fund from its Total Assets, in each case on the date on which the calculation is being made, as more fully described under "Valuation, Total Assets and Net Asset Value".

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

"NI 81-102" means National Instrument 81-102 of the Canadian Securities Administrators (or any successor policy, rule or national instrument), as it may be amended from time to time.

"Offering" means the offering of a minimum of 6,000,000 Units and a maximum of 18,000,000 Units at $25.00 per Unit and the offering of additional Units under the Over-Allotment Option pursuant to this prospectus.

"**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 approving such resolution.

"Over-Allotment Option" means the option granted by the Fund to the Agents, exercisable for a period of 30 days from Closing, to offer additional Units at $25.00 per Unit in an amount up to 15% of the aggregate number of Units sold on Closing, to cover over-allotments, if any.

"Plan Agent" means Computershare Trust Company of Canada, in its capacity as agent under the Distribution Reinvestment Plan.

"Plan Participants" means Unitholders who are participants in the Distribution Reinvestment Plan.

"**Portfolio Management Fee**" means the aggregate portfolio management fee payable to the Portfolio Manager and BCA, as more fully described under "Fees and Expenses – Portfolio Management Fee."

"**Portfolio Management Agreement**" means the portfolio management agreement to be dated the Closing Date among BCA, the Fund, the Portfolio Manager and the Manager, as it may be amended from time to time.

"**Portfolio Manager**" means the investment advisor and portfolio manager of the Fund, Flaherty & Crumrine Incorporated, or, if applicable, its successor.

"**Record Date**" means the last Business Day of each calendar month prior to the Termination Date commencing with the last Business Day of the month following the month in which the Closing Date occurs.

"**Safety Net Hedge**" means a hedging strategy to be employed by the Portfolio Manager in the Investment Grade Portfolio, as more fully described under "Investment Guidelines – Implementation of Investment Objectives and Investment Strategy - Safety Net Hedge".

"**Service Fee**" means the fee that the Fund will pay to the Manager, who in turn will pay an equivalent amount to dealers, as more fully described under "Fees and Expenses – Service Fee".

"**Standard & Poor's**" means Standard & Poor's, a division of The McGraw-Hill Group of Companies, Inc.

"**Tax Act**" means the *Income Tax Act* (Canada), as now or hereafter amended, or successor statutes.

"**Tax Proposal**" has the meaning assigned thereto under "Canadian Federal Income Tax Considerations".

"**Termination Date**" means the date the Fund is terminated as more fully described under "Declaration of Trust - Termination of the Fund".

"**Total Assets**" means, as applicable, the aggregate value of the assets of the Fund.

"**Trustee**" means Computershare Trust Company of Canada.

"**TSX**" means the Toronto Stock Exchange.

"**Unitholders**" means, unless the context otherwise requires, the owners of the beneficial interest in the Units.

"**Units**" means the transferable, redeemable trust units of the Fund, each of which represents an equal undivided beneficial interest in the net assets of the Fund.

"**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 the Net Asset Value per Unit.

THE FUND

General

Flaherty & Crumrine Investment Grade Fixed Income Fund is an investment trust established under the laws of the Province of Alberta pursuant to the Declaration of Trust. Brompton FFI Management Limited is the manager of the Fund. The Fund's principal office is Suite 2930, Bay Wellington Tower, BCE Place, 181 Bay Street, Toronto, Ontario M5J 2T3. The fiscal year-end of the Fund is December 31.

To provide the Fund with the ability to meet its investment objectives, the Fund will invest the net proceeds of the Offering together with proceeds from borrowings or other forms of leverage in the Investment Grade Portfolio. The Investment Grade Portfolio of fixed income securities will be actively managed and will consist primarily of various corporate debt securities and hybrid preferred securities of North American issuers. The portions of the Investment Grade Portfolio invested in various types of preferred or debt securities are expected to vary from time to time depending upon the Portfolio Manager's assessment of market conditions. At the time of purchase, all of the fixed income securities held in the Investment Grade Portfolio will be rated Investment Grade. While it is expected that initially the majority of the Investment Grade Portfolio will consist of debt securities, the Portfolio Manager intends to actively manage the allocation between preferred securities and debt securities in order to enhance the total return per Unit by taking advantage of pricing anomalies and market inefficiencies. Initially, the Portfolio Manager anticipates that over 80% of the Investment Grade Portfolio will be comprised of securities of companies in the banking, financial services, insurance and utilities industries. Under normal market conditions, a hedging strategy, the "Safety Net Hedge", will be employed which is intended to mitigate the impact of significant interest rate increases on the net asset value of the Investment Grade Portfolio, while permitting it to benefit from declines in interest rates. Since most of the investments in the Investment Grade Portfolio will consist of securities denominated in U.S. dollars, substantially all of the Investment Grade Portfolio will be hedged to the Canadian dollar at all times. See "Investment Guidelines".

The beneficial interest in the net assets and net income of the Fund is divided into a single class of transferable, redeemable Units, each of which represents an equal, undivided beneficial interest in the net assets and net income of the Fund. Each Unit is entitled to one vote at meetings of Unitholders and to participate equally with all other Units with respect to all payments made to Unitholders out of the Fund's assets.

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 mutual funds under such legislation.

THE INVESTMENT GRADE PORTFOLIO

Debt Securities

The debt securities market is a primary source of capital for U.S. corporations and other issuers. Debt securities typically pay either a fixed or variable rate of interest and carry original maturities from 1 to 100 years, although the vast majority of issues are 30 years or shorter. Issues may be either general obligations of the issuer (unsecured debt) or backed by specific assets of the issuer (secured or asset-backed debt). In a typical debt security, the issuer must pay the stated rate of interest for the life of the security and must repay the amount borrowed on its maturity date, or possibly earlier if the security has a put, call, sinking fund or some other early redemption or payment feature.

The corporate debt securities market is significantly larger than the preferred securities market, with approximately U.S.$6.4 trillion in debt outstanding.

In case of default, holders of debt securities have a claim to the assets of the issuer ahead of preferred securities and common stock. For this reason, corporate debt securities generally have a higher credit rating than preferred securities of the same issuer. They also typically yield less than preferred securities, reflecting the higher credit quality, although this yield differential can vary considerably over time.

There are numerous types of debt securities including straight fixed and variable-rate debt, convertible securities, asset-backed securities, commercial paper and zero-coupon bonds. Debt securities vary in maturity and duration which is a measure of the expected life of a debt security used to determine the sensitivity of the security's price to interest rates.

Hybrid Preferred Securities

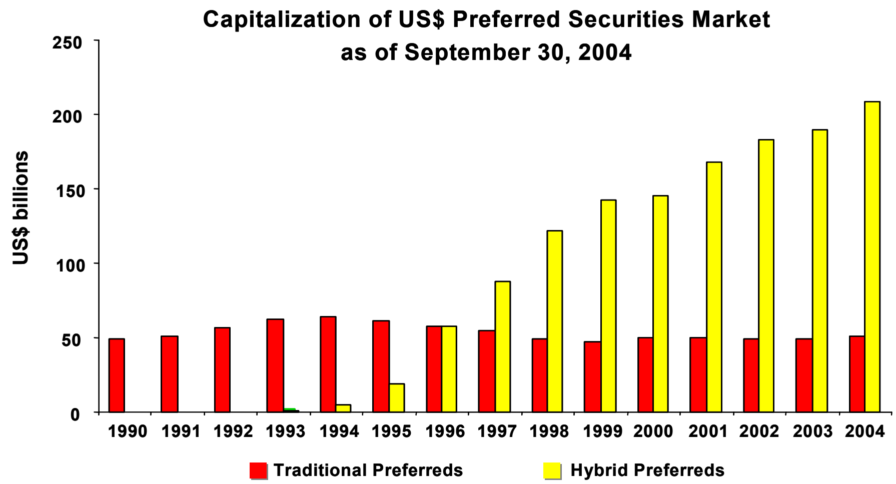
Hybrid preferred securities are typically issued by corporations, generally in the form of interest-bearing notes or preferred securities, or by an affiliated business trust of a corporation, generally in the form of beneficial interests in subordinated debentures or similarly structured securities. The hybrid preferred securities market consists of both fixed and adjustable coupon rate securities that are either perpetual in nature or have stated maturity dates. The hybrid preferred securities market is divided into the "$25 par" and the "institutional" segments. The $25 par segment is typified by securities that are listed on the New York Stock Exchange, which trade and are quoted "flat", i.e., without accrued dividend income, and which are typically callable at par value five years after their original issuance date. The institutional segment is typified by $1,000 par value securities that are not exchange-listed, which trade and are quoted on an "accrued income" basis, and which typically have a minimum of 10 years of call protection (at premium prices) from the date of their original issuance. Hybrid preferred securities include but are not limited to:

- Canadian originated preferred securities ("COPrS^{SM}");
- Trust originated preferred securities ("TOPrS^{R}");
- Monthly income preferred securities ("MIPS^{R}");
- Quarterly income bond securities ("QUIBS^{R}");
- Quarterly income debt securities ("QUIDS^{SM}");
- Quarterly income preferred securities ("QUIPS^{SM}");
- Corporate trust securities ("CORTS^{R}");
- Public income notes ("PINES^{R}");
- Mandatory convertible preferred securities; and
- Other hybrid preferred securities.

COPrS is a service mark and TOPrS is a registered service mark owned by Merrill Lynch & Co., Inc. MIPS is a registered service mark and QUIDS and QUIPS are service marks owned by Goldman, Sachs & Co. QUIBS is a registered service mark owned by Morgan Stanley Dean Witter & Co. CORTS and PINES are registered service marks owned by Salomon Smith Barney Inc.

The U.S. dollar preferred securities market as of September 30, 2004 was approximately U.S.$260 billion comprised of U.S.$209 billion of hybrid preferred securities and U.S.$51 billion of traditional preferred shares.

The hybrid preferred securities market has grown rapidly since it began to develop in the mid 1990s, as illustrated in the following chart:



Source: Flaherty & Crumrine Incorporated.

(1) Includes all U.S. dollar denominated preferred securities.

Hybrid preferred securities are typically junior and fully subordinated obligations of an issuer or the beneficiary of a guarantee that is junior and fully subordinated to the other obligations of the guarantor. In addition, hybrid preferred securities typically permit an issuer to defer payments for eighteen months or more without triggering an event of default. Generally, the deferral period is five years but may be longer. Because of their subordinated position in the capital structure of an issuer, the ability to defer payments for extended periods of time without adverse consequence to the issuer, and certain other features (such as restrictions on the payment of dividends on common shares by the issuer or ultimate guarantor when cumulative payments on the hybrid preferred securities have not been made), hybrid preferred securities are often treated as close substitutes for traditional preferred shares, both by issuers and investors. Typically, hybrid preferred securities are not redeemable by the issuer unless all cumulative payment obligations have been met, although issuers may be able to engage in open-market repurchases without regard to any cumulative dividends payable. A portion of the Investment Grade Portfolio may include investments in non-cumulative hybrid preferred securities, whereby the issuer does not have an obligation to make up any arrears to its shareholders. Hybrid preferred securities have many of the key characteristics of equity due to their subordinated position in an issuer's capital structure and because their quality and value are heavily dependent on the profitability of the issuer rather than on any legal claims to specific assets or cash flows.

Many hybrid preferred securities are issued by trusts or other special purpose entities established by operating companies and are not a direct obligation of an operating company. At the time a trust or special purpose entity sells its preferred securities to investors, the trust or special purpose entity purchases debt of the operating company (with terms comparable to those of the trust or special purpose entity securities), which enables the operating company to deduct for tax purposes the interest paid on the debt held by the trust or special purpose entity. The trust or special purpose entity in turn would be a holder of the operating company's debt and would have priority with respect to the operating company's earnings and profits over the operating company's common shareholders, but would typically be subordinated to other classes of the operating company's debt. Typically a trust preferred security has a rating that is slightly below that of its corresponding operating company's senior debt securities.

INVESTMENT GUIDELINES

The following sections, "Investment Objectives", "Investment Strategies", and "Investment Restrictions" are referred to collectively in this prospectus as the Fund's "Investment Guidelines".

Investment Objectives

The Fund's investment objectives are to:

(i) provide Unitholders with a stable stream of monthly distributions targeted to be $0.1354 per Unit ($1.625 per annum to yield 6.5% on the original subscription price of $25.00 per Unit);

(ii) mitigate the impact of significant interest rate increases on the value of the Investment Grade Portfolio;

(iii) preserve the Net Asset Value per Unit; and

(iv) enhance the total return per Unit by actively managing the Investment Grade Portfolio.

There can be no assurance that the Fund will be able to achieve these objectives.

Investment Strategies

The Fund's investment strategies are (i) to invest in an actively managed portfolio that consists primarily of various corporate debt securities and hybrid preferred securities of North American issuers, (ii) under normal market conditions, to employ a hedging strategy which is intended to mitigate the impact of significant interest rate increases on the net asset value of the Fund's portfolio while permitting it to benefit from declines in interest rates, (iii) to hedge substantially all of the Fund's portfolio to the Canadian dollar and (iv) to invest in or use derivative instruments for hedging, investment or leverage purposes, including buying or selling credit derivatives, and to borrow or employ other forms of leverage, including securities lending and repurchase agreements, to enhance the returns of the Fund's portfolio.

Implementation of Investment Objectives and Investment Strategies

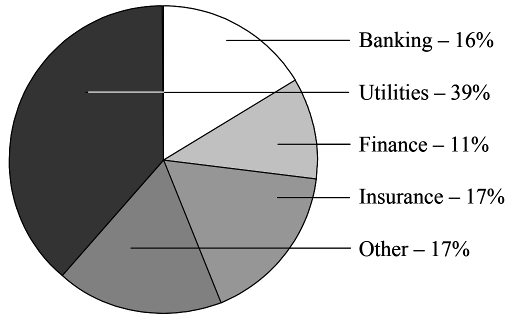
Investment Grade Portfolio

To provide the Fund with the ability to meet its investment objectives, the Fund will invest the net proceeds of the Offering together with proceeds from borrowings or other forms of leverage in the Investment Grade Portfolio. The Investment Grade Portfolio of fixed income securities will be actively managed and will consist primarily of various corporate debt securities and hybrid preferred securities of North American issuers. The portions of the Investment Grade Portfolio invested in various types of preferred or debt securities are expected to vary from time to time depending upon the Portfolio Manager's assessment of market conditions.

At the time of purchase, all of the fixed income securities held in the Investment Grade Portfolio will be rated Investment Grade. The Portfolio Manager prefers to invest in industries with regulatory oversight. While it is expected that initially the majority of the Investment Grade Portfolio will consist of debt securities, the Portfolio Manager intends to actively manage the allocation between preferred securities and debt securities in order to enhance the total return per Unit by taking advantage of pricing anomalies and market inefficiencies. Initially, the Portfolio Manager anticipates that over 80% of the Investment Grade Portfolio will be comprised of securities of companies in the banking, financial services, insurance and utilities industries. Under normal market conditions, a hedging strategy, the Safety Net Hedge, will be employed which is intended to mitigate the impact of significant interest rate increases on the net asset value of the Investment Grade Portfolio, while permitting it to benefit from declines in interest rates. Substantially all of the Investment Grade Portfolio will be hedged to the Canadian dollar at all times.

The Portfolio Manager currently anticipates that the industry sectors in which the Fund will initially invest will be as illustrated below:

Initial Sector Weighting – Investment Grade Portfolio



Source: Flaherty & Crumrine Incorporated.

This chart is for illustrative purposes only. There is no assurance that the initial sector weighting of the Investment Grade Portfolio will be as set forth above. The initial sector weighting will depend on various factors, including the Portfolio Manager's assessment of market conditions at the time of investment.

Under current market conditions, it is expected that the modified adjusted duration of the Investment Grade Portfolio if leveraged by 35%, will be approximately 14.5 years. The Portfolio Manager will employ hedging strategies designed to substantially reduce the general interest rate exposure as measured by the duration of the Investment Grade Portfolio in response to a significant rise in interest rates while allowing the duration to remain relatively high if interest rates remain unchanged or decline. Hedging instruments and techniques that may be used include entering into futures contracts, options on futures contracts, interest rate swap positions and options thereon, known as "swaptions." See "Investment Guidelines – Implementation of Investment Objectives and Investment Strategies - Safety Net Hedge".

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. See "Investment Guidelines – Implementation of Investment Objectives and Investment Strategies - Use of Derivative Instruments".

Investment Approach

The Portfolio Manager seeks to achieve consistently superior results utilizing active management of the investment portfolio through a combination of:

- intensive credit analysis of current and potential portfolio holdings;
- thorough analysis of securities' terms and structure, with a preference for issues offering attractive, sustainable income over high current yield;
- exploiting pricing inefficiencies within the preferred and debt securities markets; and
- consistent use of hedging strategies to help manage the interest rate risk while avoiding strategies that require anticipating the direction of interest rates.

The Portfolio Manager will pursue a strategy of investing in Investment Grade preferred and debt securities to meet the Fund's Investment Objectives. It seeks to identify those preferred and debt securities that provide optimal return characteristics relative to risks. Supported by a highly experienced research and trading staff, the Portfolio Manager begins its investment process with a thorough assessment of the creditworthiness of each issuer. It considers the outlook for different industries, sectors, and the economy as a whole in determining portfolio allocations. It weighs the position of each security in an issuer's capital structure relative to the issue's potential return. Using proprietary quantitative models, the Portfolio Manager also evaluates the specific terms of each issue and is generally willing to forego high current income over the short term to hold securities with more favourable call protection. The Portfolio Manager believes that this approach, which is a continuous process, will result in both attractive, sustainable income and long-term preservation of capital.

The Portfolio Manager also seeks to exploit pricing inefficiencies within the preferred and debt securities markets. There have been numerous instances in the past when, for periods of time, the various sectors of the preferred security or debt security asset classes have moved independently of one another, eventually restoring more traditional relationships. The Portfolio Manager believes that, based on its expertise, it is well positioned to take advantage of such inefficiencies and pricing anomalies in the preferred securities and debt securities markets in an attempt to enhance investment performance. The Portfolio Manager anticipates that it will actively reposition the Investment Grade Portfolio both horizontally between issuers and obligors as well as vertically among issuers' preferred and debt securities. The Portfolio Manager will employ proprietary models detailing duration, convexity and guideline compliance to provide real time analysis of the Investment Grade Portfolio.

Finally, the Portfolio Manager will pursue hedging strategies that are designed to mitigate the impact of significant interest rate increases on the Investment Grade Portfolio. Under normal market circumstances, all of the preferred and debt securities held by the Fund will be hedged against increases in the level of interest rates, as described more fully below. See "Safety Net Hedge".

Safety Net Hedge

The Portfolio Manager will engage in hedging strategies in an attempt to protect the Investment Grade Portfolio against adverse changes in the level of interest rates. Under normal market conditions, the Portfolio Manager will employ a Safety Net Hedge, which is a hedging strategy that is intended to mitigate the impact of significant interest rate increases on the net asset value of the Investment Grade Portfolio, while permitting it to benefit from declines in interest rates. The strategy is intended to result in income generated by the Investment Grade 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 anticipates using various hedging instruments and techniques, including entering into futures 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 may occur over an investment horizon. Normally, the Safety Net Hedge is structured to reduce the duration of the Investment Grade 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 Investment Grade 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 Investment Grade Portfolio. While total return 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 Investment Grade Portfolio, the Portfolio Manager believes that the Safety Net Hedge will help the Fund to 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, 100% of the Investment Grade Portfolio will be 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. In addition to the Flaherty & Crumrine Investment Grade Preferred Fund, the Portfolio Manager has employed the Safety Net Hedge strategy in the closed-end funds it manages in the U.S., including the Flaherty & Crumrine Preferred Income Fund and the Flaherty & Crumrine Preferred Income Opportunity Fund, and certain client accounts since 1992.

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 above under "Safety Net Hedge" and fluctuations in currency values. 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 Investment Grade Portfolio, will consist of securities denominated in U.S. dollars. It is expected that substantially all of the Investment Grade Portfolio will be hedged back to the Canadian dollar at all times. BCA will provide advice to the Fund with regard to currency hedging. While the Fund intends to purchase forward contracts 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.

Leverage

In order to provide the Portfolio Manager with the ability to use leverage to enhance the return of the Investment Grade Portfolio, the Fund may borrow pursuant to loan facilities or otherwise. The Fund may also add leverage to the Investment Grade 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 relating to the Fund. The Manager, on behalf of the Fund, intends to use such 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 Investment Grade Portfolio and the cost of borrowing the purchase price for such investments. The use of leverage to enhance returns on the Investment Grade 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 lenders or other parties to secure such borrowings or other leverage. Such securities lending and repurchase agreements must qualify as "securities lending arrangements" for purposes of the Tax Act.

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, BCA will instruct the Portfolio Manager to 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 up to 2.5% of its Total Assets determined at the time of borrowing for working capital purposes.

The amount of borrowing and other leverage of the Fund will be monitored by BCA.

Securities Lending

In order to generate additional returns, the Fund may lend securities in the Investment Grade Portfolio to borrowers acceptable to the Fund pursuant to the terms of a securities lending agreement between the Fund and any such borrower. Under any securities lending arrangement: (i) the borrower will pay a negotiated securities lending fee and will make compensation payments equal to any distributions received by the borrower on the securities borrowed; (ii) the securities loans must qualify as "securities lending arrangements" for the purposes of the Tax Act; and (iii) the Fund will receive appropriate collateral security. For greater certainty, any securities lending by the Fund will not be subject to the restrictions in NI 81-102.

Investment Restrictions

The Portfolio Manager will actively manage the Investment Grade Portfolio, subject to certain investment restrictions as set out below.

(i) **Purchasing Securities.** The Portfolio Manager will not purchase securities other than through normal market facilities unless the purchase price approximates the prevailing market price or is negotiated or established on an arm's length basis.

(ii) **Concentration**. The Fund will not invest more than 10% of its Total Assets (determined at the time of purchase) in the securities of any one issuer (other than Cash and Cash Equivalents and securities issued by the U.S. Government, U.S. Government sponsored enterprises, or the Government of Canada).

(iii) **Control**. The Portfolio Manager will not purchase securities if after such purchase the Fund would hold more than 10% of the outstanding voting securities of that issuer at the time of purchase.

(iv) **Leverage**. The Fund may borrow or employ other forms of leverage for investment purposes in an aggregate amount not to exceed 35% of the Total Assets of the Fund at the time the borrowing or other transaction is entered into. With respect to other forms of leverage, any counterparty (or its guarantor) will be rated at least Investment Grade. In addition to leverage for investment purposes, the Fund may borrow up to 2.5% of its Total Assets determined at the time of borrowing for working capital purposes. See "Leverage".

(v) **Credit Quality.** The Fund will not invest in securities which do not have an Investment Grade rating at the time of purchase. With respect to securities purchased pursuant to the Safety Net Hedge, any counterparty (or its guarantor) will be rated at least Investment Grade.

(vi) **Commodities**. The Fund will not purchase or sell commodities or commodity contracts except that the Fund may purchase and sell financial futures contracts, credit related derivatives and related options.

(vii) **No Guarantee**. The Fund will not guarantee securities or obligations of another person or company.

(viii) **Mutual Fund Trust**. The Fund will manage its investments and affairs to ensure that it will be a "mutual fund trust" for purposes of the Tax Act.

(ix) **Foreign Investment Entities and Foreign Affiliates**. The Fund will not make any investment that could require the Fund to include in its income an amount pursuant to subsection 94.1(4), 94.2(4) or 94.3(4) of the Tax Act as proposed in draft legislation issued by the Department of Finance on October 30, 2003. The Fund will not make any investments in entities that would be "foreign affiliates" of the Fund for purposes of the Tax Act.

Standard & Poor's Fund Ratings

Standard & Poor's has developed a rating scale to assist investors in understanding the risk profile of an investment in fixed income funds. Managed fund credit quality ratings, identified by the 'f' subscript, are assigned to bond funds and other actively managed funds that exhibit variable net asset values. These ratings are current assessments of the overall credit quality of a fund's portfolio. The ratings reflect the level of protection against losses from credit defaults and are based on an analysis of the credit quality of the portfolio investments and the likelihood of counterparty defaults. Credit quality ratings, which range from "AAAf" as the highest level of protection to "CCCf" as the lowest level of protection, are based on an analysis of the fund's overall portfolio credit quality. The global credit quality rating 'f' scale can be converted to the Canadian Preferred Share rating scale (Pf scale). The highest level of protection on the Pf scale is P-1 (high)f and the lowest level of protection is P-5 (low)f.

A rating by Standard & Poor's is not a recommendation to buy, sell or hold securities and is subject to revision, suspension or withdrawal by Standard & Poor's at any time.

The Fund Rating

The Units of the Fund have received a rating of **P-2f** from Standard and Poor's based on a review of the Manager, the Portfolio Manager, the prospective composition of the Investment Grade Portfolio and the Investment Guidelines and Investment Restrictions of the Fund.

Standard & Poor's will be asked to affirm the **P-2f** rating on Closing of the Offering or shortly thereafter. Following Closing, Standard & Poor's will monitor and review the Fund, and in particular the creditworthiness of the securities comprising the Investment Grade Portfolio, and will be provided with information on the Fund's performance, financial profile, monthly distributions and the composition of the Investment Grade Portfolio on an ongoing basis for its review in respect of the rating of the Units. No assurance can be given that the rating will be affirmed by Standard & Poor's or that this rating will be maintained. It is not an objective of the Fund to maintain this rating. Accordingly, the rating assigned to Units of the Fund from time to time may be negatively impacted by the actions taken on behalf of the Fund and no remedial actions will be required to be taken on behalf of the Fund by reason only of a change in the rating.

The Manager has retained Standard & Poor's to provide a rating for the Units. Standard & Poor's is paid a fee for these services, but has no other relationship with, or economic interest in, either of the Fund or the Manager.

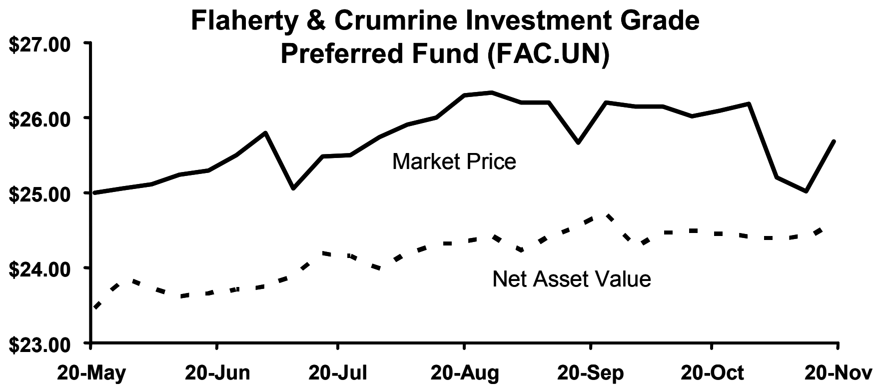
THE PORTFOLIO MANAGER

Flaherty & Crumrine Incorporated was founded in 1983 and as of September 30, 2004, the Portfolio Manager had aggregate assets under management in excess of U.S.$3.2 billion. It is headquartered in Pasadena, California and specializes in the active management of preferred securities and debt securities for institutional investors and publicly traded closed-end funds. The Portfolio Manager is registered as an investment adviser under the *Investment Advisers Act 1940*, as amended, and with the U.S. Commodities Futures Trading Commission as a commodity trading adviser and is a member of the U.S. National Futures Association.

The Portfolio Manager is known for its active interest rate hedging program to manage interest rate risk for its clients, including the Safety Net Hedge.

Flaherty & Crumrine Investment Grade Preferred Fund

Flaherty & Crumrine Investment Grade Preferred Fund (the "FAC fund") is an investment trust managed by an affiliate of the Manager and advised by the Portfolio Manager. The investment strategy employed by FAC fund, including the Safety Net Hedge, is similar to the Investment Strategy to be used by the Fund, except that FAC fund focuses primarily on preferred securities. While it is expected that the majority of the Investment Grade Portfolio will initially consist of debt securities, in the future, the Portfolio Manager will more actively manage the allocation of the Investment Grade Portfolio between corporate debt securities and preferred securities depending upon its assessment of market conditions. In addition, the Fund will employ higher leverage. On May 17, 2004, FAC fund completed its initial public offering of 7,400,000 trust units at a price of $25.00 per trust unit. As of November 19, 2004, the closing price of the units of FAC fund have consistently traded at a premium to their net asset value per unit. As at November 19, 2004 the closing price of the units of FAC fund was $25.69, representing a 4.6% premium to their net asset value. In addition, since inception, FAC fund has paid distributions totalling $0.7292 which is in excess of its investment objectives. The net asset values and the trading prices on the TSX of FAC fund for the period from the closing of its initial offering on May 17, 2004 to November 19, 2004 are set out in the graph below:



Source: Flaherty & Crumrine Incorporated.

The information in the foregoing graph relates to FAC fund, is historical in nature and is not intended to be, and should not be construed as, an indication of the future trading levels or net asset values associated with Units of the Fund. Although the Fund and FAC fund have similar investment strategies as described above, the Investment Grade Portfolio held by the Fund may significantly differ from the preferred portfolio held by FAC fund.

In addition to the Flaherty & Crumrine Investment Grade Preferred Fund, the Portfolio Manager also manages the portfolios of four publicly traded closed-end funds in the U.S. which invest in preferred and debt securities and which employ interest rate hedging strategies, such as the Safety Net Hedge, and have leverage levels similar to that of the Fund. Flaherty & Crumrine Preferred Income Fund and Flaherty & Crumrine Preferred Income Opportunity Fund, two publicly traded closed-end funds in the U.S. managed by the Portfolio Manager using similar investment strategies, have achieved Morningstar 4 and 5-Star overall ratings respectively, as well as either 4 or 5 star ratings for the 3, 5, and 10-year periods. Morningstar, Inc. is a global research firm which provides ratings for investment funds which have at least three years of performance history. In 2003, two additional closed-end funds were launched: the Flaherty & Crumrine/Claymore Preferred Securities Income Fund and the Flaherty & Crumrine/Claymore Total Return Fund. These funds are not yet eligible for rating by Morningstar.

AVERAGE TOTAL RETURNS PER YEAR BASED ON NET ASSET VALUE(1)
FOR PERIODS ENDING SEPTEMBER 30, 2004
(Based on monthly data provided by Lipper Inc.)

	One Year	Three Years	Five Years	Ten Years	Since Inception
Flaherty & Crumrine Preferred Income Fund (NYSE: PFD)	5.5%	11.8%	9.9%	10.0%	12.2%(2)
Flaherty & Crumrine Preferred Income Opportunity Fund (NYSE: PFO)	5.3%	11.7%	10.2%	10.5%	10.4%(3)
Domestic U.S. Investment Grade Bond Funds - Lipper (4)	5.9%	7.0%	7.8%	8.0%	7.9%(2)(5)

Notes:

(1) Distributions are assumed to be reinvested at net asset value in accordance with Lipper's practice. The indicated rates of return are the historical annual compounded total returns including changes in net asset value and reinvestment of all dividends and distributions, and are net of all expenses of the funds, including management fees. Funds are not guaranteed, their values change frequently and past performance may not be repeated.

(2) Since inception on January 31, 1991.

(3) Since inception on February 13, 1992.

(4) Includes all U.S. Government bond, mortgage bond and term trust and investment grade bond funds in Lipper's closed-end fund database at each point in time.

(5) Domestic U.S. Investment Grade Bond Funds - Lipper return equalled 7.3% for the period January 31, 1992 to September 30, 2004.

Key Personnel of the Portfolio Manager

The team that will be primarily responsible for the Investment Grade Portfolio includes Donald Crumrine, Robert Ettinger, Peter Stimes, Bradford Stone, Eric Chadwick and Christopher Ryan. Other key members of the Portfolio Manager who will be involved in the management and servicing of the Investment Grade Portfolio include: Rick Seto, Paul Common and Laurie Lodolo. A description of the experience and background relevant to the business of the Fund for each of the key personnel follows:

Donald F. Crumrine CFA (Chairman)

Mr. Crumrine has 34 years of experience managing portfolios of preferred and other forms of fixed income securities. He co-founded Flaherty & Crumrine Incorporated in 1983 after spending fourteen years at Scudder, Stevens & Clark, an investment counselling firm. Mr. Crumrine is Chairman of the Portfolio Manager, and also serves as Chairman of the Board, Chief Executive Officer and as a Director of Flaherty & Crumrine Preferred Income Fund, Flaherty & Crumrine Preferred Income Opportunity Fund, Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated and Flaherty & Crumrine/Claymore Total Return Fund Incorporated.

While at Scudder, Mr. Crumrine and his partner Bob Flaherty built a reputation for excellence in managing preferred securities. As innovators in the development of strategies for hedging the general interest rate exposure of these portfolios, Messrs. Flaherty and Crumrine founded the Portfolio Manager to focus on managing portfolios of preferred securities and associated hedges.

Mr. Crumrine is actively involved in the day-to-day management of all client portfolios. In addition, he directs the Portfolio Manager's client service and marketing efforts.

Mr. Crumrine has a B.S. in Finance from the University of Southern California and earned his M.B.A. from the Wharton School at the University of Pennsylvania. He has co-authored research papers presented to the committee for after-tax performance measurement of the Association of Investment Management and Research. He has testified before the United States House Ways and Means Committee on matters related to the preferred securities market.

Robert M. Ettinger CFA (President)

Mr. Ettinger has over twenty-one years of experience managing preferred and other forms of fixed income securities, eighteen with Flaherty & Crumrine Incorporated. Prior to joining the Portfolio Manager, he also worked at Scudder, Stevens & Clark with Messrs Flaherty and Crumrine on developing strategies to hedge preferred securities.

Mr. Ettinger is the head trader at the Portfolio Manager and has primary responsibility for implementing investment strategies of the firm. Along with his colleagues, Mr. Ettinger has developed a number of sophisticated tools for analyzing preferred securities. He also serves as the primary liaison between the Portfolio Manager and the brokerage community.

Mr. Ettinger is President of the Portfolio Manager and serves as President and as a Director of Flaherty & Crumrine Preferred Income Fund and Flaherty & Crumrine Preferred Income Opportunity Fund. Mr. Ettinger is also President of Flaherty & Crumrine/Claymore Preferred Securities Fund and Flaherty & Crumrine/Claymore Total Return Fund.

Mr. Ettinger has a B.A. in Economics from UCLA and was honored as the department's Commencement Speaker in 2001. He received his M.B.A. from the Wharton School at the University of Pennsylvania.

Peter C. Stimes CFA (Vice-President)

Mr. Stimes has extensive experience in the areas of portfolio management, quantitative research, credit analysis, treasury management, and utility regulation. Mr. Stimes joined the Portfolio Manager as a principal in

1990 and is a Vice President. He is Vice President and Assistant Secretary of Flaherty & Crumrine Preferred Income Fund, Flaherty & Crumrine Preferred Income Opportunity Fund, Flaherty & Crumrine/Claymore Preferred Securities Income Fund and Flaherty & Crumrine/Claymore Total Return Fund.

Mr. Stimes joined the Portfolio Manager after having worked five years at Tucson Electric Power Company, which included serving as an Assistant Treasurer of the utility and as Vice President of its securities investment subsidiary. Prior to that, after receiving his M.B.A., he was employed for four years as an analyst and, subsequently, as an officer at Duff & Phelps, Inc., an independent firm specializing in securities analysis and financial consulting.

Mr. Stimes is co-head of quantitative research and credit analysis. In conjunction with other principals of the Portfolio Manager, he has developed various computer models to simulate and track valuation of preferred securities and related hedge instruments. The Portfolio Manager's credit analysis operations are largely based on independent research from 10-K's, Annual Reports and company interviews.

Mr. Stimes has a B.A. in History and an M.B.A. from the University of Chicago. His M.B.A. was focused on financial economics and mathematical statistics. He has co-authored research papers presented to the committee for after-tax performance measurement of the Association of Investment Management and Research. He has prepared analyses for the U.S. Dept. of Treasury and I.R.S. in connection with developing "at risk" standards for hedging transactions. Mr. Stimes has produced analyses for and met with the Staff of the Joint Committee on Taxation with regard to taxation of preferred securities. He has also presented testimony before the Federal Energy Regulatory Commission and Iowa State Corporation Commission as a financial expert.

Bradford S. Stone (Vice-President)

Mr. Stone joined Flaherty & Crumrine Incorporated in May 2003 after a 20-year career on Wall Street. Based in Summit, New Jersey, he is a member of the firm's portfolio management team, responsible for macroeconomic research and is co-head of quantitative research and credit analysis. From 2001 until joining the Portfolio Manager, he was Director of US Market Strategy at Barclays Capital in New York, where he advised clients on market strategies across US Treasuries, agencies, and interest rate derivative products. Prior to Barclays, Mr. Stone spent 14 years at Goldman Sachs, where he most recently held the position of Director – Interest Rate Product Strategy, Americas. He was a regular member of Institutional Investor's All-America Fixed Income Research Team, earning the top ranking in Derivatives Strategy in 2001. He began his career at Salomon Brothers as an options trader and derivative salesperson.

Mr. Stone also serves as Vice President and Assistant Treasurer for Flaherty & Crumrine Preferred Income Fund, Flaherty & Crumrine Preferred Income Opportunity Fund, Flaherty & Crumrine/Claymore Preferred Securities Income Fund and Flaherty & Crumrine/Claymore Total Return Fund. He also serves as the primary liaison with the rating agencies that rate the outstanding auction rate securities of certain of these funds.

Mr. Stone received his M.B.A. from Wharton Graduate School of Business and his A.B. in Economics from Dartmouth College.

R. Eric Chadwick CFA (Vice-President)

Mr. Chadwick has seven years of experience managing preferred and other forms of fixed income securities, five with the Portfolio Manager. He is a Vice President of the Portfolio Manager as well as Chief Financial Officer, Treasurer, and he is also Vice President and Treasurer of Flaherty & Crumrine Preferred Income Fund, Flaherty & Crumrine Preferred Income Opportunity Fund, Flaherty & Crumrine/Claymore Preferred Securities Income Fund and Flaherty & Crumrine/Claymore Total Return Fund. Prior to joining the Portfolio Manager, he worked at Koch Industries Inc., where he was responsible for managing sizable portfolios of both preferred securities and corporate bonds. He was also responsible for developing analytical tools used in the management of the portfolios, and providing fundamental research on a broad range of credits.

Along with Mr. Ettinger, Mr. Chadwick has the primary responsibility of implementing investment strategies of the firm. He is actively involved in the development of tools for managing the portfolios and developing firm-wide systems. He is also responsible for initiating and maintaining relationships with the brokerage community.

In addition, Mr. Chadwick oversees the financial reporting, tax, and compliance operations for Flaherty & Crumrine Preferred Income Fund, Flaherty & Crumrine Preferred Income Opportunity Fund, Flaherty & Crumrine/Claymore Preferred Securities Income Fund and Flaherty & Crumrine/Claymore Total Return Fund.

Mr. Chadwick received his M.B.A. from The Anderson School at UCLA and has a B.S. in Economics from the University of Kansas.

Christopher D. Ryan CFA (Vice President)

Mr. Ryan has nine years of experience in the preferred and other forms of fixed income securities market and in October 2002 joined the Flaherty & Crumrine team to provide assistance with product development and distribution. His previous experience has been in sales and trading of preferred securities. He spent six years at Prudential Securities in preferred securities sales and trading and three years at Bears Stearns and Co. where he was an Associate Director.

Mr. Ryan has a B.A. in Finance from the University of Notre Dame and an M.B.A. from the Marshall School of Business at the University of Southern California.

Rick J. Seto CFA (Senior Credit Analyst)

Mr. Seto joined Flaherty & Crumrine Incorporated in October 2003 after spending seven years as an equity and fixed income analyst and eight years as a commercial bank lending officer. Based in Summit, New Jersey, he currently has responsibility for a broad range of investment-grade credits and is a member of the firm's credit committee. From 1999 until joining the Portfolio Manager, Mr. Seto was an Associate Equity Analyst at UBS Investment Bank, where he covered natural gas pipelines, local distribution companies, electric utilities, and master limited partnerships. Prior to UBS, he spent three years at Moody's Investors Service as an Associate Analyst covering investment-grade consumer products and retail companies. From 1991 to 1996, he was an Assistant Vice-President and commercial lending officer at NatWest Bank with primary account and cross-sell responsibilities for a portfolio of consumer products, consumer finance and retail companies. Mr. Seto was a member of the top-ranked Institutional Investor's All-America Natural Gas Equity Research Team at UBS in 2003. He began his career at Heller Financial Inc. as a financial analyst in asset-based lending.

Mr. Seto has completed a formal credit-training program at NatWest Bank, and received his BS in Statistics and Econometrics from New York University.

Paul M. Common CFA (Senior Credit Analyst)

Mr. Common joined Flaherty & Crumrine Incorporated as a Senior Credit Analyst in October 2003. Based in Summit, New Jersey, he has responsibility for a broad range of investment grade credits and is a member of the firm's credit committee. Mr. Common has formal credit training from JP Morgan Chase, has seven years experience as a credit analyst and has attained the Chartered Financial Analyst designation. Prior to joining the firm, Mr. Common was a Director of Fixed Income Research at Guardian Life Insurance Company of America, part of a team overseeing a $24 billion portfolio of fixed income securities.

Mr. Common has an M.A. in Russian Studies from Georgetown University and a B.A. in Political Science from the University of Toronto.

Laurie C. Lodolo (Secretary)

Mrs. Lodolo has been with Flaherty & Crumrine Incorporated since 1987. She serves as Secretary and assists in the financial reporting, tax, and compliance operations for Flaherty & Crumrine Preferred Income Fund, Flaherty & Crumrine Preferred Income Opportunity Fund, Flaherty & Crumrine/Claymore Preferred Securities Income Fund and Flaherty & Crumrine/Claymore Total Return Fund.

Mrs. Lodolo has a B.S. degree from California Polytechnic State University, San Luis Obispo.

Services Provided by the Portfolio Manager

The Portfolio Manager will provide investment advisory and portfolio management services for the Fund and the provision of its services will be monitored by BCA. Decisions as to the purchase and sale of Investment Grade Portfolio securities, as to borrowing and other forms of leverage by the Fund and as to the execution of all portfolio transactions, other than those pertaining to currency hedging, will be made by the Portfolio Manager, in accordance with and subject to the terms of the Portfolio Management Agreement. Subject to the terms of the Portfolio Management Agreement, the Portfolio Manager will determine security type and industry weighting for the Investment Grade Portfolio on an ongoing basis. In making these determinations, the Portfolio Manager will use a review process that includes assessment and analysis of financial leverage, credit risk, business risk, industry risk, currency risk, issuer size, liquidity and volatility of the investment.

The Portfolio Management Agreement

The Portfolio Management Agreement, unless terminated as described below, will continue until the Termination Date. The Fund or BCA may terminate the Portfolio Management Agreement in the following circumstances: (i) 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; (ii) 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; (iii) if there is a dissolution and commencement of winding-up of the Portfolio Manager; (iv) 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; (v) if the assets of the Portfolio Manager become subject to seizure or confiscation by any public or governmental organization; (vi) if the Portfolio Manager has lost any registration, license or other authorization required by it to perform its duties under the Portfolio Management Agreement or is otherwise deemed unable to perform the services delegated to it thereunder; or (vii) 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 Investment Grade Portfolio.

The Portfolio Manager may terminate the Portfolio Management Agreement in the event the Fund or BCA is in material breach of the provisions thereof and such material breach has not been cured within 30 days' notice of such breach to the Fund. The Portfolio Manager may resign upon 120 days' notice to the Fund and BCA.

In the event that the Portfolio Management Agreement is terminated or the Portfolio Manager resigns as provided above, the Manager or BCA shall promptly appoint a successor portfolio manager to carry out the activities of the Portfolio Manager until a meeting of Unitholders is held to confirm such appointment.

In the Portfolio Management Agreement, the Portfolio Manager covenants to act honestly and in good faith with a view to the best interests of the Fund and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent portfolio manager would exercise in the circumstances. The Portfolio Management Agreement provides that the Portfolio Manager will not be liable in any way for any default, failure or defect in, or any loss or diminution of value of, any of the securities comprising the Investment Grade Portfolio if it has satisfied the duties and the standard of care, diligence and skill set forth above. The Portfolio Management Agreement also requires that the Portfolio Manager and its officers, directors and employees shall be indemnified, from the assets of the Fund, in respect of all losses (other than loss of profits), expenses, claims, actions, damages or liabilities whatsoever which they suffer or incur, unless such claim resulted from an act or omission involving wilful misconduct, fraud, negligence or reckless disregard of the Portfolio Manager's duties under the Portfolio Management Agreement or a material breach or default of the Portfolio Manager's obligations under the Portfolio Management Agreement.

The services of the Portfolio Manager and the officers, directors and employees of the Portfolio Manager are not exclusive for the Fund. The Portfolio Manager and its affiliates and associates (as defined in the *Securities Act* (Ontario)) may, at any time, engage in any other activity, including providing portfolio management and investment advisory services to any other partnership, fund or trust. The Portfolio Manager may acquire or dispose of the same investment for the Fund and for one or more of its other clients. Under the Portfolio Management Agreement, the Portfolio Manager has agreed to allocate investment opportunities fairly among the Fund and its other clients.

THE MANAGER

Brompton FFI Management Limited was incorporated pursuant to the *Business Corporations Act* (Ontario) on October 21, 2004. Its head office is at Suite 2930, Bay Wellington Tower, BCE Place, 181 Bay Street, Toronto, Ontario M5J 2T3. The Manager was organized for the purpose of managing and administering closed-end investments including the Fund. The Manager is a member of the Brompton Group of companies.

Affiliates of the Manager are the managers or administrators of the following publicly listed closed-end funds:

Name of Fund	Inception Date	Ticker Symbol	Description of Portfolio Securities
Brompton VIP Income Trust	Feb-02	VIP.UN	Income funds and high yield debt
Brompton MVP Income Fund	Jul-02	MVP.UN	Income funds and high yield debt
Brompton Stable Income Fund	Dec-02	BSR.UN	Income funds and investment grade debt
Brompton Equal Weight Income Fund	Jul-03	EWI.UN	Equal weight index of income funds
Business Trust Equal Weight Income Fund	Oct-03	BWI.UN	Equal weight index of business income funds
Brompton Equity Split Corp.	Apr-04	BE and BE.PR.A	Canadian equities
Flaherty & Crumrine Investment Grade Preferred Fund	May-04	FAC.UN	Investment grade preferred securities
Brompton Equal Weight Oil and Gas Income Fund	Oct-04	OGF.UN	Equal weight index of oil and gas income funds

The Manager provides all management, administrative and other services required by the Fund. The Manager will retain BCA to provide certain services to the Fund pursuant to an advisory services agreement. BCA is registered under the *Securities Act* (Ontario) as an adviser in the categories of investment counsel and portfolio manager and as a limited market dealer. BCA is the principal investment advisor of the Fund and is responsible to the Fund for the services provided by the Portfolio Manager and provides advice to the Fund with regard to currency hedging. BCA monitors the provision of the investment advisory and portfolio management services for the Fund by the Portfolio Manager. There may be difficulty in enforcing any legal rights against the Portfolio Manager because it is resident outside Canada and all or a substantial portion of its assets are situated outside Canada.

Brompton Group of Companies

The Brompton Group of companies provides specialized financial products and services to corporate, institutional and individual clients. Brompton currently manages eight public investment funds and private capital with total assets of approximately $1.6 billion. Asset management services are provided by Brompton

Management Limited and its affiliates. Brompton also offers financial advisory and merchant banking services to its clients.

Brompton and its directors and officers have extensive experience in managing financial assets and public and private entities, including the management of closed-end funds. The Brompton Group of companies operates out of offices in Toronto at Suite 2930, Bay Wellington Tower, BCE Place, 181 Bay Street, Toronto, Ontario M5J 2T3.

Directors and Officers of the Manager

The board of directors of the Manager currently consists of five members. Directors are appointed to serve on the board of directors of the Manager until such time as they retire or are removed and their successors are appointed.

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

Name and Municipality of Residence	Position with the Manager	Principal Occupation
PETER A. BRAATEN Toronto, Ontario	Chairman and Director	Chairman, Brompton Limited
JAMES W. DAVIE(1)(2)(3) Toronto, Ontario	Chairman of the Audit Committee and Director	Corporate Director
ARTHUR R.A. SCACE(1)(2)(3) Toronto, Ontario	Chairman of the Corporate Governance Committee and Director	Counsel, McCarthy Tétrault LLP
P. MICHAEL NEDHAM Toronto, Ontario	Director	Managing Director, Newport Partners Inc.
KEN S. WOOLNER(1)(2)(3) Calgary, Alberta	Lead Director	President and Chief Executive Officer, Lightning Energy Ltd.
RAYMOND R. PETHER Toronto, Ontario	Chief Executive Officer	President and Chief Executive Officer, Brompton Limited
CHRISTOPHER S. L. HOFFMANN Toronto, Ontario	Executive Vice-President	Executive Vice President, Brompton Limited
DONALD W.C. LILLIE Toronto, Ontario	President	President and Chief Executive Officer, Brompton Capital Advisors Inc.
MARK A. CARANCI Toronto, Ontario	Chief Financial Officer	Chief Financial Officer, Brompton Limited
MOYRA E. MACKAY Toronto, Ontario	Vice-President and Secretary	Vice-President and Corporate Secretary, Brompton Limited
DAVID E. ROODE Toronto, Ontario	Vice-President	Vice-President, Brompton Limited

Name and Municipality of Residence	Position with the Manager	Principal Occupation
CRAIG T. KIKUCHI Toronto, Ontario	Vice-President	Vice-President, Brompton Limited
IMRAN PERVAIZ Oakville, Ontario	Controller	Controller, Brompton Limited

Notes:

(1) Independent director.

(2) Member of the Corporate Governance Committee.

(3) Member of the Audit Committee.

A description of the experience and background relevant to the business of the Fund for each of the directors and officers of the Manager is set out below.

Peter A. Braaten (Chairman and Director)

Mr. Braaten has over 30 years experience in the investment business in Canada and the United Kingdom and is Chairman of the Brompton Group of companies. From 1998 to 2000, Mr. Braaten was President and Chief Executive Officer of 2M Energy Corp. and its predecessor Morrison Middlefield Resources Limited, both public international oil and gas companies with assets in Canada and the U.K. Mr. Braaten was one of the founders of the Middlefield Group in 1979 and was a partner of the group from 1981 to 1998. Mr. Braaten has also held a number of positions with an investment management firm, an investment bank and two Canadian banks including Citibank Canada where he was a Senior Credit Officer. Mr. Braaten received an honours Bachelor of Arts degree in Economics and Mathematics from The University of Western Ontario and a Master of Business Administration degree from the University of British Columbia.

James W. Davie (Chairman of the Audit Committee and Director)

Mr. Davie has over 30 years of investment banking experience and currently serves as a corporate director. Mr. Davie has held a number of senior positions at RBC Dominion Securities Inc. since 1973 including Managing Director of Investment Banking and head of Equity Capital Markets from 1987 to 1999. Mr. Davie received a Bachelor of Commerce degree from the University of Toronto and a Master of Business Administration from Queen's University. In addition to his position as a director of certain of Brompton Funds, Mr. Davie is a director of Profico Energy Management Inc., Navigo Energy Inc. and Taylor Gas Liquids Ltd. and is also a trustee of Oil Sands Split Trust and Bloorview Macmillan Children's Centre.

Arthur R.A. Scace (Chairman of the Corporate Governance Committee and Director)

Mr. Scace is counsel at McCarthy Tétrault and formerly was a partner of the firm and has over 35 years of legal and business experience. Mr. Scace began his career at McCarthy Tétrault in 1967 and became a partner in 1972. Mr. Scace served as the Managing Partner of the Toronto office from 1989 to 1996 and as the firm's National Chairman from 1997 to 1999. Mr. Scace received a Bachelor of Arts degree from the University of Toronto, a Bachelor of Arts degree from Oxford University as a Rhodes Scholar, a Master of Arts degree from Harvard University, and a Bachelor of Laws degree from Osgoode Hall Law School at York University. Mr. Scace is also a Queen's Counsel and has received honourary Doctorates of Law from The Law Society of Upper Canada and York University. In addition to his position as a director of certain of Brompton funds, Mr. Scace is Chairman of the board of directors of The Bank of Nova Scotia and a board member of several other Canadian companies, and is a former Treasurer of the Law Society of Upper Canada.

P. Michael Nedham (Director)

Mr. Nedham has over 30 years experience in the investment business and is Managing Director of Newport Partners Inc. Mr. Nedham co-founded Canada's first mergers and acquisitions group in 1971 at Burns Bros. & Denton Ltd. (a predecessor of Burns Fry Limited and BMO Nesbitt Burns Inc.), and served on its board of directors from 1974 to 1986. In 1986, Mr. Nedham co-founded Lancaster Financial, Inc., a mergers and acquisitions boutique and merchant banking firm. In 1995, Lancaster Financial, Inc. was sold to TD Securities Inc. and Mr. Nedham became one of the managing directors of TD Securities Inc. Mr. Nedham left TD Securities Inc. in 1998 to form Michael Nedham and Associates, Ltd. a specialized financial advisory firm. Mr. Nedham is Co-General Partner of a private capital fund which invests in the Canadian oil and gas industry. Mr. Nedham has a Bachelor of Science in Engineering from Queen's University and a Master of Business Administration from the University of Western Ontario and is a member of the Canadian Institute of Chartered Business Valuators. He is a member of the board of directors of x.eye incorporated, Brompton Management Limited and certain Brompton funds.

Ken S. Woolner (Lead Director)

Mr. Woolner has 20 years experience in the oil and gas industry. Since December 2001, Mr. Woolner has been President and Chief Executive Officer of Lightning Energy Ltd., a public oil and gas company operating in Western Canada. Mr. Woolner was the President and Chief Executive Officer and a director of Velvet Exploration Ltd. from April 1997 to July 2001 when it was acquired by El Paso Oil & Gas Inc. and was a director of El Paso Oil and Gas Canada Inc. from July 2001 to May 2002. From November 1991 to March 1997, Mr. Woolner was employed by Morrison Petroleums Ltd., a public oil and gas company, in various positions including Vice-President, Marketing and Executive Vice President of CGGS Canadian Gas Gathering Systems Inc., a private company managed by Morrison Petroleums Ltd. In addition, Mr. Woolner was a director of Nevis Ltd., the underlying operating company of Western Facilities Fund, a public income trust. Mr. Woolner is a director of several Brompton Funds. Mr. Woolner is a professional engineer and received a Bachelor of Science in Geological Engineering from the University of Toronto.

Raymond R. Pether (Chief Executive Officer)

Mr. Pether has 28 years experience in the investment business having held numerous high level, oil and gas, banking, real estate finance and investment positions. Mr. Pether co-founded the Brompton Group of companies in 2000 and as Chief Executive officer of Brompton Limited, provides direction to all activities of the group. Formerly, Mr. Pether was President and Chief Executive Officer of Western Facilities Fund, a public income trust engaged in the operation of oil and gas midstream assets from June, 1998 to April, 2001. Mr. Pether was also Chief Operating Officer of Morrison Middlefield Resources Limited and its successor 2M Energy Corp., public oil and gas companies, from January, 1994 to November, 2000. Prior thereto, Mr. Pether held several senior positions with the Middlefield Group including President of Middlefield Resources Limited and Executive Vice President of Middlefield Securities Limited and with a number of major banks including Vice President of Citibank Canada. Mr. Pether received a Bachelor of Arts degree in Economics from The University of Western Ontario and a Master of Business Administration degree from McMaster University. Mr. Pether is also a director of Newport Securities Inc. and a director and Chief Executive Officer of Welton Energy Corporation, a junior oil and gas company based in Calgary, Alberta.

Christopher S.L. Hoffmann (Executive Vice-President)

Mr. Hoffmann has over 29 years experience as a senior corporate lawyer advising clients in the Canadian financial services industry. Mr. Hoffmann joined the Brompton Group of companies in 2004 and participates in the direction of all activities of the group. From 1990 to 2004 Mr. Hoffmann was a partner at McCarthy Tétrault (a major national Canadian law firm), focusing on corporate finance and mergers and acquisitions. From 1987 to 1989 Mr. Hoffmann was Executive Vice President and Chief Operating Officer of Granite Street Inc., a private investment and holding company. From 1980 to 1987 Mr. Hoffmann was a partner at Burnet, Duckworth & Palmer. Mr. Hoffmann is a member of the Law Society of Ontario and received both a Bachelor of Laws and a Bachelor of Civil Laws from McGill University, a Master of Science from University of California, Berkley and a Bachelor of Science from McGill University. In addition to his position within the Brompton Group of companies, Mr. Hoffmann is a director of Delta Systems Inc., MKS Inc. and The Northern Trust Company, Canada.

Donald W.C. Lillie (President)

Mr. Lillie has over 30 years of business experience and joined Brompton Limited in July 2001. Mr. Lillie is President and Chief Executive Officer of Brompton Capital Advisors Inc. From January 1994 to July 2001, Mr. Lillie was Chairman and Chief Executive Officer of International Strategic Capital Corp., a securities dealer he founded which provided financial management services to small and medium sized ventures. From September 1989 to January 1994, Mr. Lillie was President of Middlefield Securities Limited and was actively involved in corporate finance, venture capital and the creation of a number of resource and real estate investments. Prior to 1989, Mr. Lillie held senior positions with Suncor Inc., Gulf Canada Inc., Canterra Energy Inc. and Shell Canada Ltd. with responsibilities including corporate planning, treasury operations, corporate finance and management of a $600 million pension fund and an $800 million short-term investment portfolio. Mr. Lillie also acted as a Pension Fund Portfolio Manager for National Trust Company Ltd. Mr. Lillie received an honours Bachelor of Arts degree in Economics from Lakehead University in 1970 and a Master of Business Administration degree from York University in 1974.

Mark A. Caranci (Chief Financial Officer)

Mr. Caranci has over 12 years of financial experience with public and private companies. Mr. Caranci was appointed as the Chief Financial Officer of Brompton Limited in 2000 and holds that position for all of the Brompton Group of companies. Formerly, Mr. Caranci was Vice-President at the Middlefield Group from 1996 to 2000. Mr. Caranci has held various senior positions with public companies, including Chief Financial Officer of Western Facilities Fund from December 2000 to April 2001, Vice-President of Finance of 2M Energy Corp. from August 1999 to November 2000, and Vice-President, Finance of Morrison Middlefield Resources Limited, from January 1997 to August 1999. Prior to 1996, Mr. Caranci worked at Price Waterhouse, Chartered Accountants. Mr. Caranci is a Chartered Accountant and is a member of the Ontario Institute of Chartered Accountants and received a Bachelor of Commerce degree from the University of Toronto.

Moyra E. MacKay (Vice-President and Secretary)

Ms. MacKay has over 25 years of experience in the investment business having held positions in real estate and resource finance and investment and financial services companies. Ms. MacKay is Vice-President and Corporate Secretary of Brompton Limited. Ms. MacKay was Vice-President of 2M Energy Corp. from August 1999 to November 2000 and a Vice-President of Morrison Middlefield Resources Limited from July 1998 to August 1999. From June 1996 to September 1999, Ms. MacKay was Vice-President of Middlefield International Limited, which is registered with The Securities and Futures Authority in London, U.K. Ms. MacKay received a Bachelor of Arts degree from the University of Western Ontario.

David E. Roode (Vice-President)

Mr. Roode has over 12 years of business experience in merchant banking and public accounting and joined Brompton Limited in 2002 as Vice-President. Mr. Roode was Vice-President at Middlefield Bancorp Limited, a publicly-listed merchant bank from 1999 to 2001. From September 1991 to August 1996, he held progressively senior roles at Ernst & Young LLP, lastly as an audit manager. Mr. Roode is a Chartered Accountant and a member of the Ontario Institute of Chartered Accountants. He received a Bachelor of Arts degree in Economics from Queen's University and a Master of Business Administration degree from the University of Western Ontario.

Craig T. Kikuchi (Vice-President)

Mr. Kikuchi has over seven years of financial experience with public and private companies. Mr. Kikuchi joined Brompton Limited in 2002 as Controller and is currently Vice-President. Prior to joining Brompton, Mr. Kikuchi worked for PricewaterhouseCoopers LLP from September 1996 to January 2002 where he held progressively senior roles, including as a manager in both the assurance and business advisory services practice and the taxation and legal services practice. Mr. Kikuchi is a Chartered Accountant and is a member of the Ontario Institute of Chartered Accountants. He is also a CFA charter holder and is a member of the Toronto Society of Financial Analysts. He received a Bachelor of Arts degree in Economics from the University of Western Ontario.

Imran Pervaiz (Controller)

Mr. Pervaiz has over five years experience in financial reporting and compliance with public and private companies. Mr. Pervaiz is the Controller for the Brompton Group of companies. Prior to joining Brompton, Mr. Pervaiz worked for PricewaterhouseCoopers LLP as a manager in the assurance and business advisory services practice, and prior to that, worked at the Ontario Securities Commission within the Capital Markets, Compliance group. Mr. Pervaiz is a Chartered Accountant and a member of the Ontario Institute of Chartered Accountants. He is also a Certified Public Accountant registered in the State of Illinois, USA. He received a Bachelor of Commerce (Honours) degree from McMaster University in 1996 and a Master of Accounting degree from the University of Waterloo in 1999.

No director or officer of the Manager is, or within ten years prior to the date of this prospectus has been, a director, officer or promoter of any issuer that, while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the company access to any statutory exemptions for a period of more than 30 consecutive days or was declared a bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or was subjected to or instituted any proceeding, arrangement or compromise with creditors or had a receiver, receiver-manager or trustee appointed to hold the assets of that person, except as follows.

On August 14, 1990, the Ontario Securities Commission made an order ceasing trading by Middlefield Capital Fund and Middlefield Financial Limited in shares of HERO Industries Ltd., a Canadian public corporation, and denying Middlefield Capital Fund and Middlefield Financial Limited access to certain statutory exemptions in respect of trading in shares of HERO Industries Ltd. This cease trade order related to an acquisition of shares of HERO Industries Ltd. by Middlefield Financial Limited for resale to Middlefield Capital Fund, an equity investment fund managed by Middlefield Ventures Limited, an affiliate of Middlefield Financial Limited. This purchase, while made in technical compliance with the requirements of the *Securities Act* (Ontario), was found by the Ontario Securities Commission to violate the spirit of the *Securities Act* (Ontario) as it was designed, and had the effect of, defeating a formal takeover bid for the shares of HERO Industries Ltd. The order provided that it did not apply to trades in respect of the acceptance of a formal takeover bid made for shares of HERO Industries Ltd. in compliance with the *Securities Act* (Ontario) and that it would cease to apply upon the completion of a formal takeover bid made by Middlefield Capital Fund or Middlefield Financial Limited, or an associate or an affiliate thereof, in compliance with the *Securities Act* (Ontario) at a minimum price set out in the order. In October 1996, a wholly-owned subsidiary of Middlefield Financial Limited completed a takeover bid for HERO Industries Ltd. above the threshold price referred to in the order. This resulted in the order ceasing to apply. During the period from July 1990 to October 1996, Peter Braaten was a director and Raymond Pether was an officer of Middlefield Financial Limited.

Remuneration of Directors and Officers of the Manager

The fees of the directors of the Manager who are not part of management of the Manager (currently $10,000 per director per year), expenses of the directors of the Manager and the premiums for directors' and officers' insurance coverage for the directors and officers of the Manager are paid by the Fund.

Management Agreement

Pursuant to the Management Agreement, the Manager has exclusive authority to manage the business and affairs of the Fund and to make all decisions regarding the business of the Fund and has authority to bind the Fund.

The Manager is required to exercise its powers and perform its duties honestly, in good faith and in the best interests of the Unitholders and to exercise the care, diligence and skill that a reasonably prudent manager would exercise in comparable circumstances. The Management Agreement provide that the Manager will not be liable in any way for any default, failure or defect in, or any loss or diminution of value of, any assets of the Fund if it has satisfied the duties and the standard of care, diligence and skill set forth above. The Manager will incur liability, however, in cases of wilful misconduct, bad faith, negligence or disregard of its duties or standard of care, diligence and skill or material breach or default of the Manager's obligations under the Management Agreement. Among other restrictions imposed on the Manager, it may not terminate the Fund or wind up the Fund's affairs except in accordance with the provisions of the Management Agreement.

Under the terms of the Management Agreement, the Manager is responsible for providing, or causing to be provided, management and administrative services and facilities to the Fund, including, without limitation:

(a) monitoring the performance of persons, including, BCA, appointed to maintain the Portfolio in accordance with the Investment Guidelines;

(b) managing relationships with the Trustee, the Custodian, registrar and transfer agent, auditors, legal counsel and other organizations or professionals serving the Fund;

(c) monitoring the suitability of the Investment Guidelines and preparing for adoption by the Unitholders of any amendments to the Investment Guidelines which the Manager believes are in the best interests of the Fund and Unitholders;

(d) the authorization and payment on behalf of the Fund of expenses incurred on behalf of the Fund and the negotiation of contracts with third party providers of services (including, but not limited to, custodians, transfer agents, legal counsel, auditors and printers);

(e) the provision of office space, telephone service, office equipment, facilities, supplies and executive, secretarial and clerical services;

(f) the preparation of accounting, management and other reports, including quarterly and annual reports to Unitholders, financial statements, tax reporting to Unitholders and income tax returns;

(g) keeping and maintaining the books and records of the Fund and the supervision of compliance by the Fund with record keeping requirements under applicable regulatory regimes;

(h) the calculation of the amount, and the determination of the frequency, of distributions by the Fund;

(i) communications and correspondence with Unitholders and the preparation of notices of distributions to Unitholders;

(j) establishing and monitoring the Distribution Reinvestment Plan, and amending, modifying, suspending or terminating the Distribution Reinvestment Plan in a manner which the Manager believes is in the best interests of Unitholders;

(k) ensuring that the Net Asset Value per Unit is calculated and provided to the financial press;

(l) general investor relations and responding to investors' inquiries in respect of the Fund;

(m) dealing with banks and custodians, including the maintenance of bank records and the negotiation and securing of bank financing or refinancing;

(n) obtaining such insurance as the Manager considers appropriate for the Fund;

(o) arranging for the provision of services by CDS for the administration of the Book-Entry Only System with respect to the Units;

(p) reviewing fees and expenses charged to the Fund and ensuring the timely payment thereof; and

(q) ensuring:

(i) that the Fund complies with all regulatory requirements and applicable stock exchange listing requirements;

(ii) the preparation and delivery of the Fund's reports to, and dealing with, relevant securities regulatory authorities and any similar organization of any government or any stock exchange to which the Fund is obligated to report;

(iii) the organization of any meetings of Unitholders; and

(iv) the provision of such other managerial and administrative services as may be reasonably required for the ongoing business and administration of the Fund.

In consideration for these services, the Fund pays to the Manager the Management Fee and reimburses the Manager for all reasonable costs and expenses incurred by the Manager on behalf of the Fund. See "Fees and Expenses - Management Fee". The Manager, BCA and each of their directors, officers, employees, consultants and agents are indemnified and will be reimbursed by the Fund to the fullest extent permitted by law against all liabilities and expenses (including judgments, fines, penalties, interest, amounts paid in settlement with the approval of the Fund and counsel fees and disbursements on a solicitor and client basis) reasonably incurred in connection with providing services to the Fund described herein or a director, officer, employee, consultant or agent thereof, including in connection with any civil, criminal, administrative, investigative or other action, suit or proceeding to which any such person may hereafter be made a party by reason of being or having been the Manager or a director, officer, employee, consultant or agent thereof, except for liabilities and expenses resulting from the person's wilful misconduct, bad faith, negligence, disregard of their duties or standard of care, or material breach or default of their obligations under the Management Agreement.

The Manager may be terminated at any time by the Fund 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 Manager may be terminated by the Fund at any time 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. The Manager may be terminated immediately by the Fund in the event of the commission by the Manager of any fraudulent act and shall be automatically terminated if it becomes bankrupt, insolvent or makes a general assignment for the benefit of its creditors. The Manager may assign its rights, duties and obligations as Manager to an affiliate at any time. The Manager may resign upon 120 days' notice to the Trustee. If no new manager is appointed within such 120-day period, the Fund will be terminated. The appointment of a new manager (other than an affiliate of the Manager) requires the approval of the Unitholders by Ordinary Resolution. Other than fees and expenses payable to the Manager pursuant to the Management Agreement up to and including the date of termination, no additional payments will be required to be made to the Manager as a result of any termination.

The services of the Manager and the officers, directors and employees of the Manager are not exclusive to the Fund. The Manager and its affiliates and associates (as defined in the *Securities Act* (Ontario)) may, at any time, engage in any other activity including the administration of any other fund or trust.

DETAILS OF THE OFFERING

The Offering consists of a minimum of 6,000,000 Units and a maximum of 18,000,000 Units at a price of $25.00 per Unit.

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 beneficial interest in the net assets of the Fund. Units are freely transferable, except as provided under "Declaration of Trust – Non-Resident Unitholders" or as otherwise restricted by the Trustee in order to comply with any applicable laws, regulations or other requirements imposed by regulatory authorities or to obtain, maintain or renew any licences, rights, status or powers pursuant to any applicable laws, regulations or other requirements imposed by any stock exchange or other applicable regulatory authorities.

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. Each holder of Units is entitled to one vote for each Unit held and is entitled to participate equally with respect to any and all distributions made by the 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. See "Declaration of Trust - Termination of the Fund".

Delivery Form and Denomination

Registration of interests in and transfers of the Units will be made only through the Book-Entry Only System. On the Closing Date, the Trustee will deliver to CDS a certificate representing the aggregate number of Units then subscribed for under the Offering. Units must be purchased, transferred and surrendered for redemption through a CDS Participant. All rights of an owner of Units must be exercised through, and all payments or other property to which such Unitholders are entitled will be made or delivered by, CDS or the CDS Participant through which the Unitholder holds such Units. Upon purchase of any Units, the Unitholders will receive only a customer confirmation from the registered dealer which is a CDS Participant and from or through which the Units are purchased. References in this prospectus to a Unitholder means, unless the context otherwise requires, the owner of the beneficial interest in such Units.

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

The Fund has the option to terminate registration of the Units through the Book-Entry Only System, in which case certificates for the Units in fully registered form would be issued to beneficial owners of such Units or their nominees.

DECLARATION OF TRUST

General

The Fund is an investment trust created pursuant to the Declaration of Trust and governed by the laws of the Province of Alberta. The Declaration of Trust provides that the undertaking of the Fund is restricted to:

(i) investing in, holding and selling securities of the Investment Grade Portfolio and Cash and Cash Equivalents as provided for herein;

(ii) engaging in hedging strategies in an attempt to protect the Investment Grade Portfolio against adverse changes in the level of interest rates;

(iii) engaging in hedging strategies so that substantially all of the Investment Grade Portfolio will be hedged to the Canadian dollar at all times;

(iv) buying and selling 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; and

(v) borrowing pursuant to loan facilities, securities lending, repurchase agreements or otherwise in order to provide the Portfolio Manager with the ability to use leverage to enhance the return of the Investment Grade Portfolio or for working capital purposes,

in each case, subject to the Investment Restrictions.

Non-Resident Unitholders

At no time may (i) non-residents of Canada, (ii) partnerships that are not Canadian partnerships or (iii) a combination of non-residents of Canada and such partnerships (all as defined in the Tax Act), be the beneficial owners of a majority of the Units and the Trustee shall inform the transfer agent and registrar of this restriction. The Trustee may require declarations as to the jurisdictions in which a beneficial owner of Units is resident and, if a partnership, its status as a Canadian partnership. If the Trustee becomes aware, as a result of requiring such declarations as to beneficial ownership or otherwise, that the beneficial owners of 40% of the Units then outstanding are, or may be, non-residents and/or partnerships that are not Canadian partnerships, or that such a situation is imminent, the Trustee may make a public announcement thereof. If the Trustee determines that more than 40% of the Units are beneficially held by non-residents and/or partnerships that are not Canadian partnerships, the Trustee may send a notice to such non-resident Unitholders and partnerships, chosen in inverse order to the order of acquisition or in such manner as the Trustee may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not less than 30 days. If the Unitholders receiving such notice have not sold the specified number of Units or provided the Trustee with satisfactory evidence that they are not non-residents or partnerships other than Canadian partnerships within such period, the Trustee may on behalf of such Unitholders sell such Units and, in the interim, shall suspend the voting and distribution rights attached to such Units. Upon such sale, the affected holders shall cease to be beneficial holders of Units and their rights shall be limited to receiving the net proceeds of sale of such Units.

Repurchase of Units

The Declaration of Trust provides that, subject to applicable law, the Fund may, in its sole discretion, from time to time purchase (in the open market or by invitation for tenders) Units for cancellation up to a maximum in any twelve month period of 10% of the number of Units outstanding at the commencement of such period, in all cases at a price per Unit not exceeding the Net Asset Value per Unit on the Valuation Date immediately prior to the date of any such purchase of Units. It is expected that these purchases will be made as normal course issuer bids through the facilities and under the rules of the TSX or such other exchange or market on which the Units are then listed.

Take-over Bids

The Declaration of Trust contains provisions to the effect that if a take-over bid is made for the Units and not less than 90% of the Units (but not including any Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by the Unitholders who did not accept the take-over bid on the terms offered by the offeror.

Modification of the Declaration of Trust and Meetings of Unitholders

Except as provided below, the Declaration of Trust may be amended by an Ordinary Resolution approved at a meeting of Unitholders duly convened and held in accordance with the provisions of the Declaration of Trust, or by the written consent in lieu of a meeting if there is only one Unitholder. Not less than 21 days' notice will be given for any meeting of Unitholders. The quorum for any meeting of Unitholders is two or more Unitholders present in person or represented by proxy holding not less than 5% of the Units then outstanding. If no quorum is present at such meeting when called, the meeting, if convened upon the request of Unitholders, shall be dissolved, but in any other case shall be adjourned for not less than 14 days and the Unitholders present in person or represented by proxy at such adjourned meeting form the necessary quorum. At any such meetings, each Unitholder will be entitled to one vote for each whole Unit held.

The approval of Unitholders by an Ordinary Resolution passed at a meeting 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), is required for any termination of the Manager other than termination in circumstances where the Manager has been removed by the Trustee pursuant to the Declaration of Trust or the Manager has resigned.

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

(i) the liquidation, dissolution or termination of the Fund, except that 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 of the Fund is reduced as the 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;

(ii) 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 currently provided for in the Declaration of Trust;

(iii) the sale of all or substantially all of the assets of the Fund other than in the ordinary course;

(iv) the termination of the Trustee or any one of its affiliates as the trustee of the Fund;

(v) any change in the Investment Guidelines, unless such changes are necessary to ensure compliance with applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time;

(vi) any increase in the fees payable to the Manager, the Portfolio Manager or BCA;

(vii) any amendment, modification or variation in the provisions or rights attaching to the Units;

(viii) any termination of the Portfolio Manager (other than in certain circumstances specified in the Portfolio Management Agreement 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 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; and

(x) any change in the frequency of calculating Net Asset Value per Unit to less often than weekly.

The Trustee is entitled to amend the Declaration of Trust without the 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 Fund as a “mutual fund trust”;

(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 upon the advice of counsel to the Fund,

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 without their consent.

The holders of not less than 10% of the then outstanding Units may requisition the Trustee to call a meeting of Unitholders for the purpose stated in the requisition.

The Fund, subject to obtaining all necessary regulatory approvals, does not intend to hold annual meetings of Unitholders. However, the Fund will undertake to the TSX to hold annual meetings of Unitholders if so instructed by the TSX. To date, the TSX has not instructed the Fund to hold annual meetings of Unitholders.

Information and Reports to Unitholders

The Fund will furnish to Unitholders such financial statements (including periodic unaudited and annual audited financial statements, accompanied by management's discussion and analysis of the affairs and operations of the Fund) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial or territorial legislation. Unitholders of the Fund will be informed of the composition of the Investment Grade Portfolio through the inclusion of a statement of investments in the periodic and annual financial statements of the Fund. The information will also be available on the Brompton website (www.bromptongroup.com).

Prior to any meeting of Unitholders, the Fund will provide to Unitholders (along with notice of such meeting) all such information as is required by applicable law to be provided to Unitholders.

Termination of the Fund

The Fund will 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 and passed at a duly convened meeting of Unitholders called for the purpose of considering such 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. 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 of the Fund is reduced as the 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. Prior to the Termination Date, the Manager will convert the Investment Grade Portfolio to cash to the extent practicable and will satisfy or make appropriate provision for all liabilities of the Fund. The Manager may, in its discretion and upon not less than 30 days' notice to the Unitholders, extend the Termination Date by a period of up to 180 days if the Manager will be unable to convert all of the Investment Grade Portfolio 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. 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, subject to compliance with any securities or other laws applicable to such distributions. See "Risk Factors". Following such distribution, the Fund will be dissolved.

The Fund will also be terminated in the event of the resignation of the Manager if a replacement Manager has not been appointed within 120 days of the date upon which the Manager gives notice to the Trustee of its resignation. Such termination shall occur on the date which is 60 days following the last day of the aforementioned 120 day period.

DISTRIBUTIONS AND REINVESTMENT

Distribution Policy

In accordance with the Fund's investment objective to provide Unitholders with a stable stream of monthly distributions targeted to be $0.1354 per Unit ($1.625 per annum to yield 6.5% on the original subscription price of $25.00 per Unit), the Fund will endeavour to make monthly distributions to Unitholders of record on or about the last Business Day of each month. Distributions will be paid no later than the tenth Business Day of the subsequent month. The Fund expects that the initial distribution will be payable to Unitholders of record on January 31, 2005. There can be no assurance that the Fund will be able to achieve its monthly distribution objective or make such payments on any Distribution Date.

If, in any year after such distributions, there would otherwise remain in the Fund additional net income or net realized capital gains, the Fund will make, on or before December 31 of that year, a special distribution of such portion of the remaining net income and net realized capital gains as is necessary to ensure that the Fund will not be liable for income tax thereon under the Tax Act. Unless the Manager otherwise determines, all special distributions will be paid in Units and then the Units will be automatically consolidated into that number of Units outstanding immediately prior to the distribution.

The amount of distributions in any particular calendar month will be determined by the Manager, having regard to the investment objectives of the Fund, the net realized capital gains and net income of the Fund, if any, during the calendar month and in the year to date, the net realized capital gains and net income of the Fund anticipated in the balance of the year and distributions made in previous months.

Distributions will be payable to Unitholders of record on the Record Date. All distributions will be paid to Unitholders proportionately based on their respective holdings of Units.

Distribution Reinvestment Plan

The Fund will adopt, on or prior to the Closing, the Distribution Reinvestment Plan so that, subject to obtaining all necessary regulatory approvals, all distributions shall be automatically reinvested on each Unitholder's behalf, at the election of each such Unitholder, pursuant to the Distribution Reinvestment Plan and in accordance with the provisions of the Distribution Reinvestment Plan Agency Agreement. Notwithstanding the Distribution Reinvestment Plan, all distributions to non-resident Unitholders will be paid in cash and will not be reinvested. **There is no guarantee that the Fund will receive the requisite regulatory approvals to effect reinvestment of distributions or avoid resale restrictions in connection with the operation of the Distribution Reinvestment Plan. Such approvals may not be available, or may be conditional upon amendments being made to the Distribution Reinvestment Plan.** In the event that necessary regulatory approvals in respect of the Distribution Reinvestment Plan cannot be obtained, the Fund will, to the extent permitted under applicable laws and stock exchange rules, use distributions to acquire, through purchases in the market on behalf of each Unitholder that has elected to have his or her distributions automatically reinvested, additional Units.

It is anticipated that following receipt of all necessary regulatory approvals, any Units issued by the Fund pursuant to the Distribution Reinvestment Plan will be able to be traded following the date upon which the Fund becomes a reporting issuer, being the date of issuance of a receipt for the prospectus.

Distributions due to the Plan Participants shall be applied, on behalf of Plan Participants, to purchase additional Units. Such purchases will either be made from the Fund or in the market. If 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 (the

"Market Price") is less than the Net Asset Value per Unit on the Distribution Date, the Plan Agent shall apply the distributions either to purchase Units in the market or from treasury as follows. Purchases in the market will be made by the Plan Agent on an orderly basis during the six trading day period following the Distribution Date and the price paid for those Units will not exceed 115% of the Market Price of the Units on the relevant Distribution Date. On the expiry of that period, the unused part, if any, of the distributions attributable to the Plan Participants will be used to purchase Units from the Fund at the Net Asset Value per Unit on the relevant Distribution Date.

If the Market Price is equal to or greater than the Net Asset Value per Unit on the Distribution Date, the Plan Agent shall apply the distributions to purchase Units from the Fund through the issue of new Units at the higher of (i) the Net Asset Value per Unit on the relevant Distribution Date and (ii) 95% of the Market Price on the relevant Distribution Date.

If the Units are thinly traded, purchases in the market under the Distribution Reinvestment Plan may significantly affect the market price. Depending on market conditions, direct reinvestment of cash distributions by Unitholders in the market may be more, or less, advantageous than the reinvestment arrangements under the Distribution Reinvestment Plan. The Units purchased in the market or from the Fund will be allocated on a *pro rata* basis to the Plan Participants. The Plan Agent will furnish to each Plan Participant a report of the Units purchased for the Plan Participant's account in respect of each distribution and the cumulative total purchased for that account. The Plan Agent's charges for administering the Distribution Reinvestment Plan and all brokerage fees and commissions in connection with purchases in the market pursuant to the Distribution Reinvestment Plan will be paid by the Fund. **The automatic reinvestment of distributions under the Distribution Reinvestment Plan will not relieve participants of any income tax applicable to those distributions.** See "Canadian Federal Income Tax Considerations".

A Unitholder may elect to participate in the Distribution Reinvestment Plan by notifying CDS in writing via the applicable CDS Participant, which will then appropriately instruct the Plan Agent, no later than two Business Days prior to the Record Date in respect of each distribution in which the Unitholder intends to participate. That notice, if actually received by the Plan Agent no later than the close of business on the Business Day immediately preceding the Record Date, will have effect for the distribution to be made on the following Distribution Date. Unless the Plan Agent is provided written notice of a Unitholder's intention to participate in the Distribution Reinvestment Plan in such manner, distributions to Unitholders will be made in cash. The Manager may terminate the Distribution Reinvestment Plan in its sole discretion on not less than 30 days' notice to the Plan Participants. The Manager may also amend, modify or suspend the Distribution Reinvestment Plan at any time in its sole discretion, provided that it gives notice of that amendment, modification or suspension to Unitholders. The Fund is not required to issue Units into any jurisdiction where that issuance would be illegal.

REDEMPTION OF UNITS

Annual Redemption

Units may be surrendered annually for redemption not more than 45 Business Days and at least 20 Business Days prior to the second last Business Day in November each year. Unitholders whose Units are redeemed will receive a redemption price equal to 100% of Net Asset Value per Unit for each Unit so redeemed on the Annual Redemption Date minus any costs of funding the redemption including all brokerage fees, commissions and other costs incurred in liquidating securities held in the Investment Grade Portfolio. In calculating Net Asset Value for these purposes, the value of any traded security shall be equal to the latest available bid price for such security as described under "Valuation, Total Assets and Net Asset Value." Unitholders will also receive any distribution declared to Unitholders of record on or before the relevant Annual Redemption Date.

Monthly Redemption

In addition to the annual redemption right, commencing immediately upon Closing Units may be surrendered for redemption at least ten Business Days prior to the second last Business Day of each month, except for the month of November, as Units may be surrendered for redemption pursuant to the annual redemption. Unitholders whose Units are redeemed in this manner will receive a redemption price per Unit 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 on the applicable Monthly Redemption Date, minus any costs of funding the redemption including all brokerage fees, commissions and other costs incurred by the Fund in liquidating securities held in the Investment Grade Portfolio. Unitholders will also receive any distribution payable to Unitholders of record on or before the relevant Monthly Redemption Date.

Redemption Procedure

A Unitholder who desires to exercise redemption privileges must do so by causing the CDS Participant through which their Units are held 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 no later than 5:00 p.m. (Toronto time) on the 20th Business Day prior to an Annual Redemption Date but no more than 45 Business Days prior to the Annual Redemption Date in order to receive payment on the desired Annual Redemption Payment Date for an annual redemption and by no later than 5:00 p.m. (Toronto time) on the tenth Business Day prior to a Monthly Redemption Date in order to receive payment on the desired Monthly Redemption Payment Date for a monthly redemption. A Unitholder who desires to redeem Units should ensure that the CDS Participant is provided with notice of their intention to exercise their redemption right sufficiently in advance of the Annual Redemption Date or Monthly Redemption Date deadline, as applicable, so as to permit the CDS Participant to deliver a notice to CDS by 5:00 p.m. (Toronto time) on the 20th Business Day prior to the Annual Redemption Date but no more than 45 Business Days prior to the Annual Redemption Date for an annual redemption or so as to permit the CDS Participant to deliver a notice to CDS by 5:00 p.m. (Toronto time) on the tenth Business Day prior to the Monthly Redemption Date for a monthly redemption.

Payment of the redemption price for any annual redemption will be made on or before the tenth Business Day of December, subject to the Manager's right to suspend redemptions in certain circumstances. The Net Asset Value per Unit will vary depending on a number of factors. See "Redemption of Units – Suspension of Redemptions" and "Risk Factors".

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.

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

Suspension of Redemptions

The Manager may direct the Trustee to suspend the annual and monthly redemption of Units or payment of redemption proceeds (i) for the whole or any part of a period during which normal trading is suspended on a stock exchange, options exchange or futures exchange or other market within or outside Canada on which common shares, preferred or debt securities are listed and traded, or on which derivatives are traded, if those securities or derivatives represent more than 50% by value, or underlying market exposure, of the Total Assets of the Fund without allowance for liabilities and if those securities or derivatives are not traded on any other exchange or market that represents a reasonably practical alternative for the Fund; or (ii) 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 to determine the value of the assets of the Fund. The suspension may, at the sole discretion of the Trustee, apply to all requests for redemption received prior to the suspension but as for which payment has not been made, as well as to all requests received while the suspension is in effect. All Unitholders making such requests shall be advised of the suspension and of their right to withdraw their request for redemption. Redemptions so suspended will be effected at a price determined on the first date that the Net Asset Value, Market Price and Closing Market Price, as applicable, is calculated following the termination of the suspension. The suspension shall terminate on the first day on which the condition giving rise to the suspension has ceased to exist provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Fund, any declaration of suspension made by the Manager shall be conclusive.

VALUATION, TOTAL ASSETS AND NET ASSET VALUE

The Net Asset Value per Unit on any Valuation Date shall be calculated by dividing the Net Asset Value on such Valuation Date by the total number of Units outstanding on such Valuation Date. The Manager will calculate the Net Asset Value per Unit as at the close of business on each Valuation Date. The Valuation Date will, at a minimum, be 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 Fund will make available to the financial press for publication on a weekly basis the Net Asset Value per Unit.

For the purpose of calculating a Net Asset Value per Unit on such Valuation Date, the Net Asset Value will be calculated by subtracting the aggregate amount of the liabilities of the Fund from the Total Assets of the Fund. The Total Assets will be determined as follows:

(a) the value of any cash on hand or on deposit, bill, demand note and 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;

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

The Net Asset Value per Unit will be calculated in Canadian dollars.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Stikeman Elliott LLP, counsel to the Fund, and Osler, Hoskin & Harcourt LLP, counsel to the Agents, the following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations under the Tax Act and the regulations thereto generally applicable to the acquisition, holding and disposition of Units by a Unitholder who acquires Units pursuant to this prospectus. This summary is applicable to a Unitholder who is an individual (other than a trust) and who, for the purposes of the Tax Act and the regulations thereto and at all relevant times, is or is deemed to be resident in Canada, deals at arm's length with the Fund and holds Units as capital property. Generally, Units will be considered to be capital property to a Unitholder provided the Unitholder does not hold the Units in the course of carrying on a business of trading or dealing in securities and has not acquired Units in one or more transactions considered to be an adventure in the nature of trade.

This summary is based on the current provisions of the Tax Act, counsel's understanding of the current administrative and assessing practices of the CRA and all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (such proposals referred to hereafter as the "Tax Proposals"). This summary is based on certain advice from the Manager and the Agents relating to certain factual matters. 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 does not describe the income tax considerations relating to the deductibility of interest on money borrowed to acquire Units. Moreover, the income and other tax consequences of acquiring, holding or disposing of Units will vary depending on an investor's particular circumstances

including the province or provinces or territory or territories in which the investor resides or carries on business. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any investor. Investors should consult their own tax advisors for advice with respect to the income tax consequences of an investment in Units, based on their particular circumstances.

This summary is based on the assumption that none of the issuers of the securities in the Investment Grade Portfolio will be foreign affiliates of the Fund or of any Unitholder and that none of the securities in the Investment Grade Portfolio will be participating interests, other than exempt interests in foreign investment entities, or tracking entities under the proposal to amend the Tax Act released on October 30, 2003 (or such proposals as amended or enacted).

Status of the Fund

The Fund qualifies as a "unit trust". This summary assumes that the Fund will qualify at all relevant times as a "mutual fund trust" within the meaning of the Tax Act. In order to so qualify, the Fund must comply on a continuous basis with certain minimum distribution requirements relating to the Units. The Manager has advised counsel that it has no reason to believe at the date hereof that the Fund will not comply with these minimum distribution requirements throughout the life of the Fund. In addition, the Manager has advised that the Fund may not reasonably, at any time, be considered to be established or maintained primarily for the benefit of non-resident persons and, in accordance with the Tax Proposals, it is assumed that at no particular time will more than 50% of the fair market value of the Units be held by non-resident persons or partnerships that are not Canadian partnerships (as defined in the Tax Act). The Manager has advised counsel that the Fund intends to make an election so that it may qualify under the Tax Act as a mutual fund trust from the commencement of its first taxation year. In the event the Fund were not to qualify as a mutual fund trust at all times, the income tax consequences described below would in some respects be materially different.

Taxation of the Fund

The Fund will be subject to tax in each taxation year under Part I of the Tax Act on the amount of its income for the year, including the taxable portion of net realized capital gains, less the portion thereof that it claims in respect of the amounts paid or payable to Unitholders in the year. Counsel have been advised that the Fund intends to deduct, in computing its income in each taxation year, the full amount available for deduction in each year and, therefore, provided the Fund makes distributions in each year of its net income and net realized capital gains as described under "Distributions and Reinvestment", it will generally not be liable in such year for income tax under Part I of the Tax Act.

The Fund will be required to include in its income for each taxation year all interest that accrues or is deemed to accrue to it to the end of the year, or becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing its income for a preceding taxation year. On disposition of a debt obligation, the Fund will generally be required to include in computing its income for the taxation year in which the disposition occurs the amount of interest that has accrued on the debt obligation to that time except to the extent that such interest has otherwise been included in the Fund's income for the year or a preceding taxation year.

On a disposition of a security held in the Investment Grade 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 amount included in the Fund's income as interest and any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such security to the Fund. Gains or losses on the Investment Grade Portfolio would generally be on capital account unless the Fund is considered to be in the business of buying and selling the securities in the Investment Grade Portfolio or if the Fund is considered to have acquired the securities in the Investment Grade Portfolio as an adventure in the nature of a trade. The Fund will purchase the Investment Grade Portfolio with the objective of earning dividends, interest and other returns on the Investment Grade Portfolio. Accordingly, the Fund intends to treat any gains or losses on the Investment Grade Portfolio as capital gains or losses.

The Fund is required to compute all amounts, including interest, cost of property and proceeds of disposition, in Canadian dollars for purposes of the 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. The Manager of the Fund has informed counsel that substantially all of the Investment Grade 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 in hedging against foreign exchange fluctuations on an after-tax basis.

In computing its income for tax purposes, the Fund may deduct the costs and expenses of this Offering 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.

On October 31, 2003, the federal Department of Finance announced a Tax Proposal relating to the deductibility of losses under the Tax Act. Under this Tax Proposal, which is proposed to apply to taxation years beginning after 2004, 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, losses that would otherwise reduce the Fund's income or the taxable portion of net realized capital gains could be denied, with after-tax returns to Holders reduced as a result. The Manager has advised counsel that it expects the Fund to have cumulative profit from each of the securities in the Investment Grade Portfolio and, accordingly, this Tax Proposal, if enacted in the form proposed, should not adversely affect losses, if any, realized by the Fund.

The Tax Act provides for a special tax on designated income of certain trusts that have designated beneficiaries. This special tax does not apply to a trust for a taxation year if the trust is a mutual fund trust throughout such year. Accordingly, provided that the Fund qualifies as a mutual fund trust throughout a taxation year, it will not be subject to the special tax for such taxation year.

Taxation of 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 realized 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 realized 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 so that it will be nil immediately thereafter.

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 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. 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 Tax Act.

Under the 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 (as contemplated under "Distributions and Reinvestments – Distribution Policy" or pursuant to the Distribution Reinvestment Plan) 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 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.

ELIGIBILITY FOR INVESTMENT

In the opinion of Stikeman Elliott LLP, counsel to the Fund, and Osler, Hoskin & Harcourt LLP, counsel to the Agents, provided that the Fund qualifies as a "mutual fund trust" within the meaning of the Tax Act, the Units offered hereby will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans or registered education savings plans. The Units will constitute foreign property for purposes of the tax imposed under Part XI of the Tax Act.

USE OF PROCEEDS

The Fund intends to use the total proceeds from the sale of Units as follows:

	Maximum Offering	Minimum Offering
Gross proceeds to the Fund	$450,000,000	$150,000,000
Agents' fee	$23,625,000	$7,875,000
Expenses of issue	$1,025,000	$800,000
Net proceeds to the Fund	$425,350,000	$141,325,000

The Fund will use the net proceeds of the Offering (including any net proceeds from the exercise of the Over-Allotment Option) together with proceeds from borrowings or other forms of leverage to invest in the Investment Grade Portfolio.

PLAN OF DISTRIBUTION

Pursuant to the Agency Agreement, the Agents have agreed to offer Units for sale as agents of the Fund, on a best efforts basis, if, as and when issued by the Fund, in accordance with the terms and conditions of the Agency Agreement. Units will be offered at a price of $25.00 per Unit. The Agents will receive a fee equal to $1.3125 for each Unit sold and will be reimbursed for reasonable out-of-pocket expenses incurred by them. The Agents may form a sub-agency group including other qualified investment dealers and determine the fee payable to the members of such group, which fee will be paid by the Agents out of their fees. While the Agents have agreed to use their best efforts to sell Units offered hereby, the Agents will not be obligated to purchase Units that are not sold.

Newport Securities Inc., one of the Agents, is registered as a limited market dealer with the Ontario Securities Commission. Accordingly, Newport Securities Inc. may only make sales pursuant to the Offering for which the exemptions from the registration requirement are not available to it as a market intermediary by virtue of Subsection 206(1) of the Regulation made under the *Securities Act* (Ontario) or Section 3.4 of Ontario Securities Commission Rule 45-501.

The Fund has granted the Agents an Over-Allotment Option to offer up to 15% of the aggregate number of Units issued at the Closing of the Offering, which Units are qualified for sale hereunder. The Agents may exercise the Over-Allotment Option in whole or in part, at any time on or before the close of business on the 30th day following the Closing Date of the Offering. To the extent the Over-Allotment Option is exercised, the additional Units will be offered by the Agents at the offering price hereunder and the Agents will be entitled to receive a fee of $1.3125 in respect of each Unit sold. This prospectus qualifies the grant of the Over-Allotment Option as well as distribution of the Units issuable upon the exercise of the Over-Allotment Option. This prospectus also qualifies the distribution to the Manager, the Portfolio Manager and BCA at Closing of rights entitling each of them to receive, upon exercise on or before the last Business Day of each month, payment of the Management Fee or the Portfolio Management Fee for such month in Units.

Proceeds from subscriptions will be held by the Agents in trust in a segregated account until the Closing of the Offering. If subscriptions for a minimum of 6,000,000 Units have not been received by December 15, 2004, the Offering may not continue without the consent of the Canadian securities regulators and those who have subscribed on or before such date. Under the terms of the Agency Agreement, the Agents may, at their discretion on the basis of their assessment of the state of the financial markets and upon the occurrence of certain stated events, terminate the Agency Agreement.

In the event the minimum Offering is not achieved and the necessary consents are not obtained or the Closing of an Offering does not occur for any reason, subscription proceeds received from prospective purchasers will be returned to such purchasers promptly without interest or deduction. Subscriptions for Units will be received subject to rejection or allotment by the Trustee in whole or in part. In the event that a subscription is rejected, all monies received with the subscription will be refunded immediately. The right is reserved to close the subscription books at any time without notice. The Closing of the Offering will take place on or about December 15, 2004 or such later date as may be agreed on by the Trustee and the Agents that is on or before December 31, 2004.

There is currently no market through which the Units can be sold. The offering price of $25.00 per Unit was determined by negotiation between the Agents and the Manager on behalf of the Fund. The TSX has conditionally approved the listing of the Units. Listing is subject to the Fund fulfilling all of the requirements of the TSX on or before February 23, 2005, including distribution of the Units to a minimum number of public holders.

Pursuant to policy statements of certain Canadian securities regulators, the Agents may not, throughout the period of distribution, bid for or purchase Units. The foregoing restriction is subject to certain exceptions, on the conditions that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, Units. Such exceptions include a bid or purchase permitted under applicable by-laws and rules of the relevant self-regulatory authorities relating to market stabilization and passive market-making activities and a bid or purchase made for or on behalf of a customer where the order was not solicited during the period of distribution. Pursuant to the first mentioned exception, in connection with the Offering, the Agents may over-allot and effect transactions to cover their over-allotted positions. Such transactions, if commenced, may be discontinued at any time.

FEES AND EXPENSES

Initial Fees and Expenses

The expenses of the Offering (including the costs of creating and organizing the Fund, the costs of printing and preparing the prospectus, legal expenses, marketing and advertising expenses and other reasonable out-of-pocket expenses) including those incurred by the Agents and other incidental expenses, which are estimated to be an aggregate of $825,000, will be paid out of the gross proceeds of the Offering. In addition, the Agents' fee will be paid to the Agents from the gross proceeds of the Offering as described under "Plan of Distribution".

Management Fee

The Manager has co-ordinated the organization of the Fund, will work with the Agents in developing and implementing all aspects of the Fund's communications, marketing and distribution strategies. The Manager will manage the ongoing business and administrative affairs of the Fund. As compensation for management services rendered to the Fund, the Manager is entitled to receive an annual management fee in an amount equal to 0.35% of the Net Asset Value calculated and payable monthly in arrears plus all applicable taxes.

The Management Fee for any month may be paid in cash or Units at the option of the Manager. At Closing, the Manager will be issued a right entitling the Manager to receive, upon exercise on or before the last Business Day of each month for so long as the Manager acts as manager to the Fund, payment of the Management Fee for such month in Units. To the extent that Units are issued for this purpose, Units will be issued at their Net Asset Value per Unit. Units that are distributed in this respect will be distributed in accordance with exemptions from applicable securities laws in a manner determined by the Manager. Such distributions will be made in accordance with any applicable securities laws including the *Securities Act* (Ontario) and the rules of the TSX. The distribution of Units to the Manager as payment of the Management Fee will have the effect of providing additional cash flow for distributions to Unitholders of the Fund and increasing the number of issued and outstanding Units once the distribution is made.

Portfolio Management Fee

As compensation for the services rendered for the Fund, BCA and the Portfolio Manager are entitled to receive from the Fund an aggregate annual portfolio management fee in an amount equal to 0.70% of the Net Asset Value of the Fund calculated and payable monthly in arrears plus any applicable taxes. The Portfolio Management Fee for any month may be paid in cash or Units, or some combination thereof, at the option of the Portfolio Manager and BCA. The issue of any such Units will be made in accordance with any applicable securities laws including the *Securities Act* (Ontario) and the rules of the TSX. See "Fees and Expenses – Management Fee".

Service Fee

The Fund will pay to the Manager a Service Fee (calculated quarterly and paid as soon as practicable after the end of each calendar quarter) equal to 0.30% per annum of the Net Asset Value of the Fund, plus any applicable taxes. The Service Fee will be pro rated if payable in respect of a partial calendar quarter. The Service

Fee will be applied by the Manager to pay a service fee in an equivalent aggregate amount, plus any applicable taxes, to dealers based on the number of Units held by clients of such dealers at the end of the relevant quarter.

Ongoing Expenses

The Fund will pay all expenses incurred in connection with its operation and administration, including, without limitation, fees payable to the Manager, the Portfolio Manager, BCA and the Trustee, the Service Fee, custodial fees, legal, audit and valuation fees and expenses, fees and expenses of the directors of the Manager, premiums for directors' and officers' insurance coverage for the directors and officers of the Manager, costs of reporting to Unitholders, registrar, transfer and distribution agency costs, printing and mailing costs, listing fees and expenses and other administrative expenses and costs incurred in connection with the continuous public filing requirements of the Fund and investor relations, taxes, brokerage commissions, costs and expenses relating to the issue of Units, costs and expenses of preparing financial and other reports, costs and expenses arising as a result of complying with all applicable laws, regulations and policies and all amounts paid on account of indebtedness. Such expenses will also include expenses of any action, suit or other proceedings in which or in relation to which the Manager, the Portfolio Manager, BCA, the Custodian or the Trustee and/or any of their respective officers, directors, employees, consultants or agents is entitled to indemnity by the Fund.

The Manager estimates that administration and operating costs for the Fund will be approximately $375,000 per annum (assuming an offering size of approximately $200 million). The Fund will also be responsible for costs of portfolio transactions and any extraordinary expenses that may be incurred from time to time.

Any arrangements for additional services between the Fund and the Manager, or any affiliate thereof, that have not been described in this prospectus shall be on terms that are no less favourable to the Fund than those available from arm's length persons (within the meaning of the Tax Act) for comparable services and the Fund shall pay all expenses associated with such additional services.

CONFLICTS OF INTEREST

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.

In addition, the directors and officers of the Manager, BCA 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, BCA, the Portfolio Manager or their affiliates may be managers or portfolio managers of other funds including funds that invest in the same securities as the Fund. See "The Manager".

THE TRUSTEE

Computershare Trust Company of Canada acts as the Trustee of the Fund. The Trustee is responsible for certain aspects of the administration of the Fund as described in the Declaration of Trust.

The Trustee or any successor Trustee may resign upon 120 days' written notice to the Manager or may be removed by an Extraordinary Resolution passed at a meeting of Unitholders called for such purpose. Any such resignation or removal shall become effective only on the appointment of a successor Trustee by the Manager. If, after notice of resignation has been received from the Trustee, no successor has been appointed within 120 days of such notice, the Trustee, the Manager or any Unitholder may apply to a court of competent jurisdiction for the appointment of a successor Trustee.

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

The address of the Trustee is 100 University Avenue, 11th Floor, Toronto, Ontario M5J 2Y1.

The Trustee is entitled to receive fees from the Fund as described under "Fees and Expenses Payable by the Fund – Ongoing Expenses" and to be reimbursed by the Fund for all expenses which are reasonably incurred by the Trustee in connection with the activities of the Fund.

RISK FACTORS

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

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

There is no assurance that the Fund will be able to achieve its monthly distribution objective, its objective to mitigate the impact of significant interest rate increases on the value of the Investment Grade Portfolio, its objective to preserve the Net Asset Value per Unit, its objective to enhance the total return per Unit or that the Investment Grade Portfolio will earn any return.

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 and who can withstand the effect of the target return not being met in any period.

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 Investment Grade 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 Investment Grade Portfolio may occur for a number of reasons beyond the control of the Portfolio Manager. It is possible that, due to declines in the market values of such securities in the Investment Grade Portfolio, the Fund may not be able to achieve its monthly distribution objective or its objective to preserve the Net Asset Value per Unit.

Units may trade in the market at a discount or premium to the Net Asset Value per Unit. If Units trade at 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.

Preferred Securities and Debt Securities

The Investment Grade 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 securities in a company's capital structure and, therefore, will be subject to greater credit risk than those debt securities. In addition, the Investment Grade 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 the Investment Grade Portfolio

The composition of the Investment Grade Portfolio taken as a whole may vary widely from time to time and may be concentrated by type of security, industry or geography, resulting in the Investment Grade Portfolio being less diversified than anticipated. Overweighting investments in certain industries involves a risk that the Investment Grade Portfolio will suffer a loss because of general advances or 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.

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 Investment Grade Portfolio suffer a decrease in value, the leverage component will cause a decrease in value of the Investment Grade 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, BCA will instruct the Portfolio Manager to 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.

While the Manager has advised that it expects the Fund to have cumulative profit from each of the securities in the Investment Grade Portfolio, there can be no assurance that the interest expense and banking fees incurred in respect of loan facilities, or expenses and fees incurred in respect of other forms of leverage, will not 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 described under "Investment Guidelines".

Operating History and Marketability of Units

The Fund is a newly organized investment trust with no previous operating history. There is currently no public market for the Units and there can be no assurance that an active public market will develop or be sustained after completion of the Offering.

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 securities 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 income tax, securities, and other laws or the interpretation and application of such laws by courts or government authorities 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 BCA

Performance of the Investment Grade Portfolio will be dependent on the Portfolio Manager, which provides investment advisory and portfolio management services for the Fund pursuant to the Portfolio Management Agreement. Donald Crumrine, Robert Ettinger, Peter Stimes, Bradford Stone, Eric Chadwick and Christopher Ryan, employees of the Portfolio Manager, will be principally responsible for providing such investment advisory and portfolio management services and in the event that all or substantially all of the key personnel of the Portfolio Manager cease to be employed by the Portfolio Manager, or if the Portfolio Manager ceases to be the portfolio manager, the performance of the Investment Grade Portfolio may be adversely affected.

Performance of the Investment Grade Portfolio will also be dependent on BCA, 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 Investment Grade Portfolio 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 Investment Grade 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 Investment Grade 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 Investment Grade Portfolio. The market price of Units may be affected by the level of interest rates prevailing from time to time.

Illiquid Securities

If the Portfolio Manager is unable to dispose of some or all of the Investment Grade Portfolio securities, the Fund may experience a delay in the receipt of the proceeds of disposition until such time as the Portfolio Manager is able to dispose of such Investment Grade Portfolio securities. If the Portfolio Manager determines that it is appropriate to acquire certain securities for the Fund, the Portfolio Manager may be unable to acquire the number of such securities, or to acquire such securities at a price acceptable to the Portfolio Manager, if the market for such securities is particularly illiquid.

Derivatives and Hedging Risk

The Investment Grade 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 Investment Grade 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 Investment Grade 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, BCA 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 invests primarily in securities to be held in the Investment Grade Portfolio. Investment decisions for the Investment Grade 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 Investment Grade 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 Investment Grade 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 Portfolio Manager will devote as much time to the Fund as the Portfolio Manager deems appropriate to perform its duties in accordance with the Portfolio Management Agreement, the staff of the Portfolio Manager may have conflicts in allocating its time and services among the Fund and the other clients of the Portfolio Manager.

In addition, 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 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 revised. If the rating is withdrawn or revised, there may be an adverse effect on the market price of the Units.

Status of the Fund

The Fund is not a "mutual fund" for securities law purposes. As a result, some of the protections provided to investors in mutual funds under such laws will not be available to investors in the Units and certain restrictions imposed on mutual funds under Canadian securities laws do not apply to the Fund. The Fund has not adopted the standard investment restrictions and practices set forth in NI 81-102. Restrictions imposed on mutual funds under Canadian securities laws, including NI 81-102, do not apply to the Fund or the Investment Grade Portfolio.

Legal and Statutory Rights

The Portfolio Manager is a corporation formed under the laws of the State of Maryland. 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 Investment Grade 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.

Liability of Unitholders

The Declaration of Trust will provide that no Unitholder, in its capacity as such, will be subject to any personal liability whatsoever, in tort, contract or otherwise, to any person in connection with the Fund property or the obligations or the affairs of the Fund and all such persons shall look solely to the Fund property for satisfaction of claims of any nature arising out of or in connection therewith and the Fund's property only shall be subject to levy or execution. Pursuant to the Declaration of Trust, the Fund will indemnify out of the Fund's assets and hold harmless each Unitholder from any costs, damages, liabilities, expenses, charges and losses suffered by a Unitholder resulting from or arising out of such Unitholder not having limited liability.

The Declaration of Trust provides that the Trustee shall use reasonable means to cause the Fund's operations to be conducted in such a way as to minimize any risk of personal liability to Unitholders and, in particular, where feasible, to cause every written contract or commitment of the Fund to contain an express disavowal of liability of Unitholders.

In any event, it is considered that the risk of any personal liability of Unitholders is minimal in view of the anticipated equity of the Fund, and the nature of its activities. In addition, the Alberta Legislature recently passed the *Income Trust Liability Act* to create a statutory limitation on the liability of unitholders of Alberta income trusts such as the Fund. The legislation provides 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 comes into force. In the event that a Unitholder should be required to satisfy any obligation of the Fund, such Unitholder will be entitled to reimbursement from any available assets of the Fund.

Tax Proposals Respecting Deductions

On October 31, 2003 the federal 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 expect 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 Unitholders reduced as a result. The Manager has advised counsel that it expects the Fund to realize cumulative profit from each of the securities in the Investment Grade Portfolio and, accordingly, this Tax Proposal, if enacted in the form proposed, should not adversely affect losses, if any, realized by the Fund.

Treatment of Gains and Losses

In determining its income for tax purposes, the Fund intends to treat gains and losses on disposition of securities in the Investment Grade Portfolio on capital account. 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.

Status as a Mutual Fund Trust for Tax Purposes

Currently, a trust will not be considered to be a mutual fund trust if it is established or maintained primarily for the benefit of non-residents unless all or substantially all of its property is property other than taxable Canadian property as defined in the Tax Act. On September 16, 2004, the Minister of Finance (Canada) released draft amendments to the Tax Act. Under the draft amendments, a trust would lose its status as a mutual fund trust if 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 the units issued by the trust where more than 10% (based on fair market value) of the trust's property is taxable Canadian property or certain other types of property. If the draft amendments are enacted as proposed, and if, at any time, more than 50% of the aggregate fair market value of the Units of the Fund were held by non-residents and partnerships other than Canadian partnerships (or any combination thereof), the Fund would thereafter cease to be a mutual fund trust. The draft amendments do not currently provide any means of rectifying a loss of mutual fund trust status.

MATERIAL CONTRACTS

Material contracts that have been, or will be, entered into by the Fund upon its formation or prior to Closing, other than contracts entered into in the ordinary course of business, are as follows:

(a) the Declaration of Trust made by the Trustee referred to under "Declaration of Trust" and "The Trustee";

(b) the Agency Agreement referred to under "Plan of Distribution";

(c) the Portfolio Management Agreement referred to under “Portfolio Manager – The Portfolio Management Agreement”;

(d) the Custodian Agreement referred to under “Auditors, Transfer Agent, Registrar and Custodian”;

(e) the Management Agreement referred to under “The Manager – Declaration of Trust and Management Agreement”; and

(f) the Advisory Services Agreement referred to under “The Manager”.

Copies of the foregoing documents may be examined during normal business hours at the principal office of the Fund during the period of distribution to the public of the Units offered under the Offering. Copies of the Declaration of Trust may be obtained at any time from the Trustee on written request.

PROMOTER

The Manager may be considered a promoter of the Fund by reason of its initiative in forming and establishing the Fund and taking the steps necessary for the public distribution of Units. The promoter will not receive any benefits, directly or indirectly, from the issuance of Units offered hereunder other than as described under “The Manager” and “Fees and Expenses”.

LEGAL MATTERS

Legal matters in connection with the Offering will be passed upon on behalf of the Fund and the Manager by Stikeman Elliott LLP and on behalf of the Agents by Osler, Hoskin & Harcourt LLP.

AUDITORS, TRANSFER AGENT, REGISTRAR AND CUSTODIAN

The auditors of the Fund are PricewaterhouseCoopers LLP, Chartered Accountants, Suite 3000, Royal Trust Tower, Toronto-Dominion Centre, Toronto, Ontario M5K 1G8.

Computershare Trust Company of Canada will act as transfer agent, registrar and distribution agent for the Units at its principal office in Toronto.

The Royal Trust Company will serve as custodian of the Fund pursuant to an agreement to be dated as of the date of the Closing of the Offering.

PURCHASERS’ STATUTORY RIGHTS

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

AUDITORS' CONSENT

We have read the prospectus of Flaherty & Crumrine Investment Grade Fixed Income Fund (the "Fund") dated November 25, 2004 relating to the issue and sale of units of the Fund. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the Trustee of the Fund on the Statement of Financial Position of the Fund as at November 25, 2004. Our report is dated November 25, 2004.

Toronto, Ontario
November 25, 2004

(Signed) PricewaterhouseCoopers LLP
Chartered Accountants

AUDITORS' REPORT

To the Trustee of
Flaherty & Crumrine Investment Grade Fixed Income Fund:

We have audited the statement of financial position of Flaherty & Crumrine Investment Grade Fixed Income Fund as at November 25, 2004. This financial statement is the responsibility of the Fund's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, this financial statement presents fairly, in all material respects, the financial position of the Fund as at November 25, 2004 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada	(Signed) PricewaterhouseCoopers LLP
November 25, 2004	Chartered Accountants

FLAHERTY & CRUMRINE INVESTMENT GRADE FIXED INCOME FUND

STATEMENT OF FINANCIAL POSITION

As at November 25, 2004

Assets

Cash	$25

Unitholder's Equity

Unitholder's Equity (Note 1)	$25

The accompanying notes are an integral part of this statement of financial position.

Approved on behalf of Flaherty & Crumrine Investment Grade Fixed Income Fund
By: Brompton FFI Management Limited

By: (Signed) "P. MICHAEL NEDHAM"
Director

By: (Signed) "PETER A. BRAATEN"
Director

FLAHERTY & CRUMRINE INVESTMENT GRADE FIXED INCOME FUND

NOTES TO STATEMENT OF FINANCIAL POSITION

As at November 25, 2004

1. ORGANIZATION AND UNITHOLDER'S EQUITY

Flaherty & Crumrine Investment Grade Fixed Income Fund (the "Fund") was established under the laws of the Province of Alberta on October 29, 2004 by a declaration of trust as amended and restated by the amended and restated declaration of trust dated November 25, 2004 (together, the "Declaration of Trust") and is authorized to issue an unlimited number of Units. On October 29, 2004 the Fund issued one Unit for $25.00 cash.

2. MANAGEMENT, SERVICE AND PORTFOLIO MANAGEMENT FEES

Pursuant to the Management Agreement, Brompton FFI Management Limited (the "Manager") is entitled to receive an annual management fee in an amount equal to 0.35% of the Net Asset Value calculated and payable monthly in arrears, which at the option of the Manager is payable in cash or Units. The Fund will also pay to the Manager a service fee (calculated quarterly and paid as soon as practicable after the end of each calendar quarter) equal to 0.30% per annum of the Net Asset Value of the Fund, plus any applicable taxes (the "Service Fee"). The Service Fee will be applied by the Manager to in turn pay a service fee in an equivalent aggregate amount, plus any applicable taxes, to dealers based on the number of Units held by the clients of such dealers at the end of the relevant quarters.

As compensation for the services rendered to the Fund, Flaherty & Crumrine Incorporated (the "Portfolio Manager") and Brompton Capital Advisors Inc. ("BCA"), as the principal investment advisor of the Fund, are entitled to receive from the Fund an aggregate annual portfolio management fee in an aggregate amount equal to 0.70% of the Net Asset Value of the Fund calculated and payable monthly in arrears plus any applicable taxes. The Portfolio Management Fee for any month may be paid in cash or units, or some combination thereof, at the option of the Portfolio Manager and BCA.

3. SUBSEQUENT EVENT

(a) The Fund and the Manager have entered into an agency agreement with RBC Dominion Securities Inc., CIBC World Markets Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc., National Bank Financial Inc., TD Securities Inc., HSBC Securities (Canada) Inc., Canaccord Capital Corporation, Desjardins Securities Inc., First Associates Investments Inc., Raymond James Ltd., Dundee Securities Corporation, Acadian Securities Incorporated, IPC Securities Corporation, Newport Securities Inc., Research Capital Corporation and Wellington West Capital Inc. (collectively, the "Agents") dated as of November 25, 2004 pursuant to which the Fund has agreed to create, issue and sell, and the Agents have agreed to offer for sale to the public, a minimum of 6,000,000 Units and a maximum of 18,000,000 Units at $25.00 per Unit. In consideration for their services in connection with this offering, the Agents will be paid a fee of $1.3125 per Unit out of the proceeds of the offering.

(b) As set forth in the initial public offering prospectus dated November 25, 2004, the Fund proposes to issue a minimum of 6,000,000 Units and a maximum of 18,000,000 Units at a price of $25.00 per Unit.

CERTIFICATE OF THE FUND AND THE PROMOTER

Dated: November 25, 2004

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 9 of the *Securities Act* (Alberta), Part XI of *The Securities Act*, *1988* (Saskatchewan), Part VII of *The Securities Act* (Manitoba), Part XV of the *Securities Act* (Ontario), Section 6 of the *Securities Act* (New Brunswick), Section 63 of the *Securities Act* (Nova Scotia), Part II of the *Securities Act* (Prince Edward Island), Part XIV of the *Securities Act* (Newfoundland and Labrador), the *Securities Act* (Yukon), the *Securities Act* (Northwest Territories) and the *Securities Act* (Nunavut) and the respective regulations thereunder. This prospectus does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed, as required by the *Securities Act* (Québec) and the regulations thereunder.

FLAHERTY & CRUMRINE INVESTMENT GRADE FIXED INCOME FUND
By Its Attorney, **BROMPTON FFI MANAGEMENT LIMITED**

By: (Signed) "RAYMOND R. PETHER"
Chief Executive Officer

By: (Signed) "MARK A. CARANCI"
Chief Financial Officer

On behalf of the board of directors of
BROMPTON FFI MANAGEMENT LIMITED

By: (Signed) "P. MICHAEL NEDHAM"
Director

By: (Signed) "PETER A. BRAATEN"
Director

Promoter

BROMPTON FFI MANAGEMENT LIMITED

By: (Signed) "RAYMOND R. PETHER"
Chief Executive Officer

CERTIFICATE OF THE AGENTS

Dated: November 25, 2004

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 9 of the *Securities Act* (Alberta), Part XI of *The Securities Act*, 1988 (Saskatchewan), Part VII of *The Securities Act* (Manitoba), Part XV of the *Securities Act* (Ontario), Section 6 of the *Securities Act* (New Brunswick), Section 64 of the *Securities Act* (Nova Scotia), Part II of the *Securities Act* (Prince Edward Island), Part XIV of the *Securities Act* (Newfoundland and Labrador), the *Securities Act* (Yukon), the *Securities Act* (Northwest Territories) and the *Securities Act* (Nunavut) and the respective regulations thereunder. To the best of our knowledge, this prospectus does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed, as required by the *Securities Act* (Québec) and the regulations thereunder.

RBC DOMINION SECURITIES INC.

By: (Signed) "GRAHAM C. MACMILLAN"

CIBC WORLD MARKETS INC.

By: (Signed) "RONALD W. A. MITCHELL"

SCOTIA CAPITAL INC.

By: (Signed) "BRIAN D. MCCHESNEY"

BMO NESBITT BURNS INC.

By: (Signed) "DAVID R. THOMAS"

NATIONAL BANK FINANCIAL INC.

By: (Signed) "MICHAEL D. SHUH"

TD SECURITIES INC.

By: (Signed) "J. DAVID BEATTIE"

HSBC SECURITIES (CANADA) INC.

By: (Signed) "DEBORAH J. SIMKINS"

CANACCORD CAPITAL CORPORATION

By: (Signed) "WILLIAM G. MCILROY"

DESJARDINS SECURITIES INC.

By: (Signed) BETH A. SHAW.

FIRST ASSOCIATES INVESTMENTS INC.

By: (Signed) "CHARLES A. PENNOCK"

RAYMOND JAMES LTD.

By: (Signed) "GRAHAM FELL"

DUNDEE SECURITIES CORPORATION

By: (Signed) "DAVID P. STYLES"

ACADIAN SECURITIES INCORPORATED

By: (Signed) "JOHN HANRAHAN"

IPC SECURITIES CORPORATION

By: (Signed) "KELLY D. KLATIK"

NEWPORT SECURITIES INC.

By: (Signed) "JOHN GARROW"

RESEARCH CAPITAL CORPORATION

By: (Signed) "JENNIFER MCLAUGHLIN"

WELLINGTON WEST CAPITAL INC.

By: (Signed) "KEVIN HOOKE"

Flaherty & Crumrine

INVESTMENT GRADE
FIXED INCOME FUND

BROMPTON
GROUP