



**\$60,000,000 (Maximum)**

**\$40,000,000 (Maximum)**

**4,000,000 Preferred Shares (Maximum)**

**4,000,000 Class A Shares (Maximum)**

The Preferred Shares (the "Preferred Shares") and the Class A Shares (the "Class A Shares") are offered separately. The net proceeds from the offerings of the Preferred Shares and the Class A Shares will be used by Premium Income Corporation (the "Company") to invest in a portfolio (the "Portfolio") consisting principally of common shares of Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada and The Toronto-Dominion Bank (collectively, the "Banks").

The Company's investment objectives are: (i) to provide holders of Preferred Shares with cumulative preferential quarterly cash dividends in the amount of \$0.215625 per share to yield 5.75% per annum, (ii) to provide holders of Class A Shares with quarterly cash dividends equal to the amount, if any, by which the net realized capital gains, dividends and option premiums (other than option premiums in respect of options outstanding at year-end) earned on the Portfolio in any year, net of expenses and loss carry-forwards, exceed the amount of the dividends paid on the Preferred Shares; and (iii) to return the original issue price to holders of both Preferred Shares and Class A Shares at the time of redemption of such shares on November 1, 2003. To generate additional returns above the dividend income earned on the Portfolio, the Company will from time to time write covered call options in respect of all or part of the common shares in the Portfolio. The Portfolio will be managed by the Company's investment manager, Mulvihill Capital Management Inc. ("MCM"). The composition of the Portfolio, the common shares which are subject to call options and the terms of such options will vary from time to time based on MCM's assessment of market conditions.

The Preferred Shares and the Class A Shares will be redeemed by the Company on November 1, 2003. The redemption price payable by the Company for a Preferred Share on November 1, 2003 will be equal to the lesser of (i) \$15.00; and (ii) the Net Asset Value of the Company (as defined herein) on that date divided by the number of Preferred Shares then outstanding. The redemption price payable by the Company for a Class A Share on November 1, 2003 will be equal to the greater of (1) the NAV per Unit on that date minus \$15.00; and (ii) nil "NAV per Unit" for this purpose means the Net Asset Value of the Company divided by one-half of the aggregate number of Preferred Shares and Class A Shares then outstanding. Holders of Preferred Shares and Class A Shares will also be entitled to surrender their shares for retraction on a regular basis prior to November 1, 2003. See "Details of the Offerings."

The Toronto and Montreal stock exchanges have conditionally approved the listing of the Preferred Shares and Class A Shares, subject to the Company fulfilling all of the requirements of such exchanges on or before January 6, 1997, including the distribution of such shares to a minimum number of public holders.

In the opinion of counsel, the Preferred Shares and the Class A Shares, if as and when listed on a prescribed stock exchange, will be qualified investments under the *Income Tax Act* (Canada) for trusts governed by registered retirement savings plans, registered retirement income funds or deferred profit sharing plans.

While the Company is technically considered a mutual fund under the securities legislation of certain of the Provinces of Canada, it is not a conventional mutual fund and does not generally operate in accordance with the policies of the Canadian securities regulators applicable to conventional mutual funds. See "The Company — Status of the Company".

See "Risk Factors" for a discussion of certain factors that should be considered by prospective investors in Preferred Shares and Class A Shares.

**Prices: \$15.00 per Preferred Share and \$10.00 per Class A Share**  
**Minimum Purchase: 100 Preferred Shares or 100 Class A Shares**

	Price to the Public (1)	Agents' Fees	Net Proceeds to the Company (2)
Per Preferred Share .....	\$15.00	\$0.45	\$14.55
Total Minimum Offering (3)(4) .....	\$30,000,000	\$900,000	\$29,100,000
Total Maximum Offering (3) .....	\$60,000,000	\$1,800,000	\$58,200,000
Per Class A Share .....	\$10.00	\$0.50	\$9.50
Total Minimum Offering (3)(4) .....	\$20,000,000	\$1,000,000	\$19,000,000
Total Maximum Offering (3) .....	\$40,000,000	\$2,000,000	\$38,000,000

(1) The offering prices were established by negotiation between the Company and the Agents

(2) Before deducting the expenses of issue estimated at \$530,000 which, together with the Agents' fees, will be paid out of the proceeds of these offerings

(3) Although the Preferred Shares and Class A Shares are offered separately, such shares will be issued only on the basis that there will be an equal number of Preferred Shares and Class A Shares issued.

(4) There will be no closing unless a minimum of 2,000,000 Preferred Shares and 2,000,000 Class A Shares are sold.

Richardson Greenshields of Canada Limited, RBC Dominion Securities Inc., CIBC Wood Gundy Securities Inc., Nesbitt Burns Inc., ScotiaMcLeod Inc., Midland Walwyn Capital Inc., TD Securities Inc. and Trilon Securities Corporation (collectively, the "Agents") conditionally offer the Preferred Shares and Class A Shares, subject to prior sale on a best efforts basis, if, as and when issued by the Company and accepted by the Agents in accordance with the conditions contained in the Agency Agreement, and subject to the approval of certain legal matters by Osler, Hoskin & Harcourt, Toronto, on behalf of the Company and Blake, Cassels & Graydon, Toronto, on behalf of the Agents. See "Plan of Distribution".

Subscriptions will be received for the Preferred Shares and Class A Shares offered hereby, subject to rejection or allotment in whole or in part, and the right is reserved to close the subscription books at any time. Closing of these offerings is expected to occur on or about October 30, 1996, but no later than December 6, 1996. Registrations and transfers of Preferred Shares and Class A Shares will be effected only through the book-based system administered by The Canadian Depository for Securities Limited. Beneficial owners of Preferred Shares and Class A Shares will not have the right to receive physical certificates evidencing their ownership.

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## GLOSSARY

<b>Black-Scholes Model</b>	a widely used option pricing model developed by Fischer Black and Myron Scholes in 1973. The model can be used to calculate the value of an option based on the current price of the underlying security, the strike price and term of the option, prevailing interest rates and the volatility of the price of the underlying security
<b>business day</b>	any day on which The Toronto Stock Exchange is open for business.
<b>call option</b>	the right, but not the obligation, of the option holder to buy a security from the seller of the option at a specified price at any time during a specified time period.
<b>covered call option</b>	a call option entered into in circumstances where the seller of the call option holds the underlying security throughout the term of the option.
<b>in-the-money</b>	in relation to a call option, means a call option with a strike price less than the current market price of the underlying security.
<b>Net Asset Value or NAV</b>	the net asset value of the Company which on any date will be equal to the difference between the aggregate value of the assets of the Company and the aggregate value of the liabilities of the Company on that date, less \$1,000. (See "Details of the Offerings — Net Asset Value and NAV Per Unit")
<b>NAV per Unit</b>	the NAV divided by the number of Units outstanding on the date of calculation
<b>NP 39</b>	National Policy Statement No. 39 of the Canadian Securities Administrators.
<b>option premium</b>	the purchase price of an option.
<b>out-of-the-money</b>	in relation to a call option, means a call option with a strike price greater than the current market price of the underlying security.
<b>probability</b>	a numerical measure, generally expressed as a percentage, of the likelihood that an event will occur.
<b>shares</b>	includes Preferred Shares and Class A Shares
<b>shareholder</b>	a holder of a Preferred Share or a Class A Share
<b>strike price</b>	the price specified in a call option that must be paid by the option holder to acquire the underlying security.
<b>Unit</b>	a notional unit comprising one Preferred Share and one Class A Share. The number of Units outstanding at any time will be equal to the sum of the number of Preferred Shares and Class A Shares outstanding divided by two.
<b>volatility</b>	in respect of the price of a security, is a numerical measure of the tendency of the price to vary over time.

## PROSPECTUS SUMMARY

The following is a summary only and is qualified in its entirety by and should be read in conjunction with the more detailed information appearing elsewhere in this prospectus.

### The Company

Premium Income Corporation (the "Company") is a mutual fund corporation established under the laws of the Province of Ontario on August 27, 1996. The manager of the Company is Mulvihill Fund Services Inc. ("Mulvihill") and the Company's investment manager is Mulvihill Capital Management Inc. ("MCM")

### The Offerings

<b>Offerings:</b>	The offerings consist of Preferred Shares (the "Preferred Shares") and Class A Shares (the "Class A Shares") of the Company.
<b>Amounts:</b>	Maximum: \$60,000,000 (4,000,000 Preferred Shares) Minimum: \$30,000,000 (2,000,000 Preferred Shares)  Maximum: \$40,000,000 (4,000,000 Class A Shares) Minimum: \$20,000,000 (2,000,000 Class A Shares)
<b>Prices:</b>	\$15.00 per Preferred Share \$10.00 per Class A Share
<b>Minimum Purchases:</b>	100 Preferred Shares (\$1,500.00) or 100 Class A Shares (\$1,000.00)
<b>Eligibility for Investment:</b>	In the opinion of counsel, the Preferred Shares and the Class A Shares, if and when listed on a prescribed stock exchange, will be qualified investments under the <i>Income Tax Act</i> (Canada) for trusts governed by registered retirement savings plans, registered retirement income funds or deferred profit sharing plans.
<b>Investment Objectives:</b>	The Company's investment objectives are: (i) to provide holders of Preferred Shares with cumulative preferential quarterly cash dividends in the amount of \$0.215625 per share to yield 5.75% per annum; (ii) to provide holders of Class A Shares with quarterly cash dividends equal to the amount, if any, by which the net realized capital gains, dividends and option premiums (other than option premiums in respect of options outstanding at year-end) earned on the Portfolio in any year, net of expenses and loss carry-forwards, exceed the amount of the dividends paid on the Preferred Shares; and (iii) to return the original issue price to holders of both Preferred Shares and Class A Shares at the time of redemption of such shares on November 1, 2003.
<b>Investment Strategy:</b>	The Company intends to achieve its investment objectives by investing the net proceeds from these offerings in a portfolio (the "Portfolio") consisting of common shares of:  Bank of Montreal The Bank of Nova Scotia Canadian Imperial Bank of Commerce Royal Bank of Canada, and The Toronto-Dominion Bank (collectively, the "Banks").  The Company may also from time to time hold short-term debt instruments issued by the government of Canada or a province or by one or more of the Banks.

To generate additional returns above the dividend income earned on the Portfolio, the Company will from time to time write covered call options in respect of all or part of the common shares in the Portfolio. The composition of the Portfolio, the common shares that are subject to call options and the terms of such options will vary from time to time based on MCM's assessment of market conditions. See "Investments of the Company" and "Covered Call Option Writing".

**Investment Criteria:**

After an initial 30-day period following closing during which time the Portfolio will be acquired, the Company will at all times hold the common shares of at least four of the five Banks in the Portfolio and will not at any time invest more than 33 $\frac{1}{3}$ % or less than 10% of the net assets of the Company in the common shares of a single Bank within the Portfolio. To enhance returns to the Company, MCM may adjust the composition of, and relative weightings of, the Portfolio from time to time. See "Investments of the Company — Investment Criteria" and "Portfolio Investments".

**Manager:**

Mulvihill is the Manager of the Company and is responsible for providing or arranging for the provision of administrative services required by the Company. See "Management of the Company".

**Investment Manager:**

MCM has been retained to act as investment manager of the Company in accordance with the investment objectives, strategy and criteria of the Company. MCM has taken the initiative in founding and organizing the Company and is a promoter of the Company within the meaning of applicable securities legislation. See "Promoter".

**Custodian:**

The Royal Trust Company acts as custodian of the assets of the Company and is responsible for certain aspects of the day-to-day administration of the Company. See "Custodian".

**Preferred Shares**

**Dividends:**

Holders of Preferred Shares will be entitled to receive cumulative preferential quarterly cash dividends of \$0.215625 per share to yield 5.75% per annum. The initial dividend on the Preferred Shares will be payable on January 31, 1997 and based on a closing date of October 30, 1996 is expected to be \$0.220351 per share. See "Details of the Offerings — Certain Provisions of the Preferred Shares."

**Redemption:**

The Preferred Shares will be redeemed by the Company on November 1, 2003. The redemption price payable by the Company for a Preferred Share on that date will be equal to the lesser of: (i) \$15.00; and (ii) the NAV on that date divided by the number of Preferred Shares then outstanding.

**Retraction Privileges:**

**Regular Retraction:** Preferred Shares may be surrendered at any time for retraction by the Company but will be retracted only on a monthly Valuation Date (as defined below). Shares surrendered for retraction by a holder of Preferred Shares at least five (5) business days prior to the last day of the month (a "Valuation Date") will be retracted on such Valuation Date and such shareholder will receive payment on or before the fifth business day following such Valuation Date. Shareholders whose Preferred Shares are retracted on a Valuation Date will be entitled to receive a retraction price per

share equal to 96% of the lesser of (i) the NAV per Unit determined as of the relevant Valuation Date less the cost to the Company of the purchase of a Class A Share in the market for cancellation; and (ii) \$15.00. The cost of the purchase of a Class A Share will include the purchase price of the Class A Share, commission and such other costs, if any, related to the liquidation of any portion of the Portfolio to fund such purchase. See "Details of the Offerings — Certain Provisions of the Preferred Shares."

**Annual Concurrent Retraction:** A holder of a Preferred Share may concurrently retract one Preferred Share and one Class A Share on the October Valuation Date of each year, commencing on the October 1997 Valuation Date, at a retraction price equal to the NAV per Unit on that date. To be retracted in this manner, the Preferred Shares and Class A Shares must be surrendered for retraction at least five (5) business days prior to October 31. Payment of the proceeds of retraction will be made on or before the fifth business day following October 31.

### Class A Shares

**Dividends:**

The policy of the Board of Directors of the Company will be to pay dividends to the holders of Class A Shares in an amount equal to all net realized capital gains, dividends and option premiums (other than option premiums in respect of options outstanding at year end) earned on the Portfolio in each year (net of expenses and loss carry-forwards) that are in excess of the amount of the dividends paid on the Preferred Shares. The Company will endeavour to declare and pay quarterly dividends to the holders of Class A Shares at the end of January, April and July of each year and the balance, if any, by way of a special year-end dividend on October 31 of each year. The Company will endeavour to declare and pay its initial dividend on the Class A Shares on January 31, 1997. See "Details of the Offerings — Certain Provisions of the Class A Shares" and "Covered Call Option Writing — Sensitivity Analysis — Class A Shares." There can be no assurance that the Company will be able to pay dividends to the holders of Class A Shares and no dividends will be paid on the Class A Shares as long as the dividends payable on the Preferred Shares are in arrears.

**Redemption:**

The Class A Shares will be redeemed by the Company on November 1, 2003. The redemption price payable by the Company for a Class A Share on that date will be equal to the greater of (i) the NAV per Unit on that date minus \$15.00; and (ii) nil.

**Retraction Privileges:**

**Regular Retraction:** Class A Shares may be surrendered at any time for retraction by the Company but will be retracted only on a monthly Valuation Date. Shares surrendered for retraction by a holder of Class A Shares at least five (5) business days prior to a Valuation Date will be retracted on such Valuation Date and such shareholder will receive payment on or before the fifth business day following such Valuation Date. Shareholders whose Class A Shares are retracted on a Valuation Date will be entitled to receive a retraction price per share equal to 96% of the difference between (i) the NAV per Unit determined as of the relevant Valuation Date, and (ii) the cost to the Company of the purchase of a Preferred Share in the market for cancellation. The cost of the purchase of a Preferred Share will include the purchase price of the Preferred Share, commission and such other costs, if any, related to the

liquidation of any portion of the Portfolio to fund such purchase. See Details of the Offerings — Certain Provisions of the Class A Shares”.

**Annual Concurrent Retraction:** A holder of Class A Shares may concurrently retract one Class A Share and one Preferred Share on the October Valuation Date of each year, commencing on the October 1997 Valuation Date, at a retraction price equal to the NAV per Unit on that date. To be retracted in this manner, the Class A Shares and the Preferred Shares must be surrendered at least five (5) business days prior to October 31. Payment of the proceeds will be made on or before the fifth business day following October 31.

## Risk Factors

An investment in Preferred Shares or Class A Shares is subject to certain risk factors, including (i) the Company's lack of operating history and the current absence of a public trading market for the Preferred Shares and the Class A Shares; (ii) fluctuations in prevailing interest rates; (iii) the financial performance of the Banks; (iv) the writing of covered call options; (v) the fact that the amount of dividends and value of the securities comprising the Portfolio will be influenced by factors beyond the Company's control; (vi) that any decrease in the value of the Portfolio will effectively first be for the account of holders of Class A Shares; (vii) the Company's reliance on its investment manager, MCM; (viii) the fact that the Company is relying on Revenue Canada's published administrative practice regarding the manner in which the Company will treat the dispositions of securities and option transactions for tax purposes and that no advance income tax ruling in respect thereof has been requested or received. See "Risk Factors".

## Canadian Federal Income Tax Considerations

### Taxation of the Company:

At the date of closing, provided that the Preferred Shares and the Class A Shares are listed on a prescribed stock exchange, the Company will qualify, and intends to continue to qualify, as a mutual fund corporation under the Income Tax Act (Canada). As a result of the Company's investment and dividend policy and the deductibility of expenses incurred by the Company, the Company does not expect to be subject to any material non-refundable income tax liability.

### Taxation of Shareholders

#### Resident in Canada:

**Dividends:** Dividends other than capital gains dividends ("Ordinary Dividends") received by individuals on the Preferred Shares and the Class A Shares will be subject to the normal gross-up and dividend tax credit rules for dividends of a taxable Canadian corporation.

Ordinary Dividends received by corporations (other than specified financial institutions) on the Preferred Shares or the Class A Shares will generally be deductible in computing taxable income.

Ordinary Dividends received by specified financial institutions on the Preferred Shares and the Class A Shares will be deductible in computing taxable income provided certain conditions generally applicable to retractable shares such as the 10% ownership restriction are met.

Ordinary Dividends received by corporations (other than private corporations and certain other corporations) on the Preferred Shares (but not the Class A Shares) will be subject to a 10% tax under Part IV.1 of the Income Tax Act (Canada) to the extent that such dividends are deductible in computing taxable income.

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

**Dispositions:** A disposition, whether by way of redemption, retraction or otherwise, of a Preferred Share or a Class A Share held as capital property will result in a capital gain or capital loss to the holder thereof.

For a detailed explanation of the Canadian federal income tax considerations, see "Canadian Federal Income Tax Considerations".

### Summary Of Fees And Expenses Payable By The Company

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

<u>Type of Charge</u>	<u>Description</u>
Fees payable to the Agents for selling Preferred Shares and Class A Shares . . . . .	\$0.45 per Preferred Share \$0.50 per Class A Share
Expenses of issue . . . . .	The Company will pay the expenses incurred in connection with the offerings of Preferred Shares and Class A Shares by the Company, estimated to be \$530,000.
Fee payable to MCM for acting as investment manager of the Company . . . . .	Annual rate of 0.80% of the Company's NAV calculated and payable monthly, plus applicable taxes.
Fee payable to Mulvihill for acting as manager of the Company . . . . .	Annual rate of 0.10% of the Company's NAV calculated and payable monthly, plus applicable taxes.
Operating expenses of the Company . . . . .	The Company will pay all ordinary expenses incurred in connection with the operation and administration of the Company, including commissions and other costs of Portfolio transactions, estimated to be \$185,000 per annum. The Company will also be responsible for any extraordinary expenses of the Company which may be incurred from time to time.

## THE COMPANY

Premium Income Corporation (the "Company") is a mutual fund corporation incorporated under the laws of the Province of Ontario on August 27, 1996. The manager of the Company is Mulvihill Fund Services Inc. ("Mulvihill") and the investment manager is Mulvihill Capital Management Inc. ("MCM"). Mulvihill is a wholly-owned subsidiary of MCM.

The principal office of each of the Company, Mulvihill and MCM, is located at 110 Yonge Street, Suite 300, Toronto, Ontario, M5C 1T4.

### Status of the Company

While the Company is technically considered to be a mutual fund under the securities legislation of certain provinces of Canada and is an open-ended mutual fund within the meaning of the Business Corporations Act (Ontario), it is not a conventional mutual fund and has been exempted from certain requirements of National Policy No. 39 of the Canadian Securities Administrators.

The Company differs from a conventional mutual fund in a number of respects most notably as follows: (i) the Preferred Shares and Class A Shares are retracted monthly whereas the securities of most conventional mutual funds are retracted daily, (ii) the Preferred Shares and the Class A Shares are to have stock exchange listings whereas the securities of most conventional mutual funds do not, (iii) the Preferred Shares and Class A Shares will not be offered on a continuous basis by the Agents whereas the securities of most conventional mutual funds are offered continuously and (iv) the Company's Portfolio may be described as concentrated in fewer investments than that of a conventional mutual fund.

## INVESTMENTS OF THE COMPANY

### Investment Objectives

The Company's investment objectives are:

- (i) to provide holders of Preferred Shares of the Company (the "Preferred Shares") with cumulative preferential quarterly cash dividends in the amount of \$0.215625 per share to yield 5.75% per annum;
- (ii) to provide holders of Class A Shares of the Company ("Class A Shares") with quarterly cash dividends equal to the amount, if any, by which the net realized capital gains, dividends and option premiums (other than option premiums in respect of options outstanding at year-end) earned on the Portfolio in any year, net of applicable expenses and any available loss carry-forwards, exceed the amount of dividends paid on the Preferred Shares; and
- (iii) to return the original issue price of the Preferred Shares (\$15.00 per share) and the Class A Shares (\$10.00 per share) to shareholders at the time of redemption of such shares on November 1, 2003.

### Investment Strategy

The Company intends to invest the net proceeds from these offerings in a portfolio (the "Portfolio") consisting principally of common shares issued by Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada and The Toronto-Dominion Bank (individually, a "Bank" and collectively, the "Banks"). The Portfolio will be acquired under the direction of MCM in the secondary market and will be actively managed by MCM to enhance returns to the Company.

To generate additional returns above the dividend income earned on the Portfolio, the Company will from time to time write covered call options in respect of all or part of the common shares of the Banks in the Portfolio. The writing of covered call options will be managed by MCM in a manner consistent with the investment objectives of the Company. The individual common shares within the Portfolio which are subject to call options and the terms of such options will vary from time to time based on MCM's assessment of the market. See "Covered Call Option Writing". Additionally, the Company may use put options to preserve the value of the Portfolio where appropriate.

From time to time, the Portfolio may include debt securities having a remaining term to maturity of less than one year issued or guaranteed by the government of Canada or a province or short term commercial paper issued by one or more of the Banks.

## Investment Criteria

The Company is subject to certain investment criteria that, among other things, limit the common shares and other securities the Company may acquire to comprise the Portfolio. The Company's investment criteria may not be changed without the separate approval of the holders of the Preferred Shares and the Class A Shares by a two-thirds majority vote at a meeting called for such purpose. See "Shareholder Matters — Acts Requiring Shareholder Approval". The Company's investment criteria provide that the Company may not:

- (a) except as provided in paragraphs (c) and (f), purchase securities other than common shares of the Banks;
- (b) at any time after the initial 30-day period following the closing of the offerings, invest in the common shares of fewer than four Banks provided that not more than 33 $\frac{1}{3}$ % or less than 10% of the NAV may at any time be invested in the common shares of each of such four Banks;
- (c) purchase debt securities unless such securities have a remaining term to maturity of less than one year and are issued or guaranteed by the government of Canada or a province or are short term commercial paper issued by one or more of the Banks;
- (d) write a call option in respect of any common share unless such common share is actually held by the Company at the time the option is written;
- (e) dispose of a common share included in the Portfolio that is subject to a call option written by the Company unless such option has either terminated or expired;
- (f) purchase call options or put options except as specifically permitted under NP 39;
- (g) make or retain investments which render the Preferred Shares or Class A Shares "foreign property" under Part XI of the *Income Tax Act* (Canada) or, if the Company is a registered investment within the meaning of such Act, which render it liable to tax under Part XI of such Act; or
- (h) enter into any arrangement (including the acquisition of common shares in the Portfolio and the writing of covered call options in respect thereof) where the main reason for entering into the arrangement is to enable the Company to receive a dividend on such shares in circumstances where, under the arrangement, someone other than the Company bears the risk of loss or enjoys the opportunity for gain or profit with respect to such shares in any material respect.

In addition but subject to these investment criteria, the Company has adopted the standard investment restrictions and practices set forth in NP 39 (as it may be amended from time to time) except for section 2.04(1)(a) of NP 39. A copy of such standard investment restrictions and practices will be provided by the Company to any person on request.

## PORTFOLIO INVESTMENTS

The following table provides certain per share information concerning the closing prices, dividend yield and average annual appreciation in the prices of the common shares of the Banks:

<u>Banks</u>	<u>Closing Price (1)</u>	<u>Indicated Dividend (2)</u>	<u>Dividend Yield</u>	<u>Average Annual Appreciation 1991-1996 (3)</u>
Bank of Montreal . . . . .	\$40.30	\$1.44	3.57%	11.4%
The Bank of Nova Scotia . . . . .	\$41.20	\$1.36	3.30%	13.0%
Canadian Imperial Bank of Commerce . . . . .	\$55.00	\$1.80	3.27%	7.9%
Royal Bank of Canada . . . . .	\$42.45	\$1.36	3.20%	7.4%
The Toronto-Dominion Bank . . . . .	\$29.95	\$1.00	<u>3.34%</u>	<u>9.1%</u>
Average . . . . .			<u>3.34%</u>	<u>9.8%</u>

Notes:

(1) As at October 16, 1996.

(2) Based on last declared dividend per share annualized as at October 16, 1996.

(3) December 31, 1991 to September 30, 1996

To enhance returns to the Company, MCM may adjust the composition of, and relative weightings within, the Portfolio from time to time in accordance with the Company's investment objectives, strategy and criteria. See "Investments of the Company".

### Trading History

The following table sets forth the closing market prices on The Toronto Stock Exchange on the dates indicated below in respect of the common shares of the Banks:

Portfolio	Closing Prices Per Common Share (1)											
	October 16, 1996	Third Quarter 1996	Second Quarter 1996	First Quarter 1996	Fourth Quarter 1995	Third Quarter 1995	Second Quarter 1995	First Quarter 1995	Dec. 31 1994	Dec. 31 1993	Dec. 31 1992	Dec. 31 1991
Bank of Montreal	40.30	36.60	33.40	31.75	31.00	29.50	28.75	26.75	26.13	27.63	22.81	21.88
The Bank of Nova Scotia	41.20	38.60	33.20	30.75	29.75	28.25	29.63	27.00	26.75	30.63	23.75	21.63
Canadian Imperial Bank of Commerce	55.00	49.40	44.05	41.00	40.63	35.13	33.00	33.75	33.88	33.00	26.75	34.38
Royal Bank of Canada	42.45	38.80	32.75	31.88	31.13	29.50	30.75	28.75	28.13	28.88	24.63	27.63
The Toronto-Dominion Bank	29.95	27.65	23.95	23.63	24.00	23.00	21.13	20.13	21.25	21.38	16.63	18.25

Note

(1) All prices have been adjusted for stock splits

The information contained in the above section is historical and is not intended to be, nor should it be construed to be, an indication as to the future trading levels of the common shares in the Portfolio.

### Dividend History

The following table sets forth the dividend history for the periods indicated below in respect of the common shares of the Banks:

Portfolio	Trailing 12 Month Dividends Per Common Share (1)(2)											
	Third Quarter 1996	Second Quarter 1996	First Quarter 1996	Fourth Quarter 1995	Third Quarter 1995	Second Quarter 1995	First Quarter 1995	Dec. 31 1994	Dec. 31 1993	Dec. 31 1992	Dec. 31 1991	
Bank of Montreal	1.41	1.38	1.35	1.32	1.29	1.26	1.23	1.20	1.12	1.06	1.06	
The Bank of Nova Scotia	1.30	1.27	1.24	1.24	1.24	1.22	1.20	1.18	1.13	1.06	1.01	
Canadian Imperial Bank of Commerce	1.70	1.62	1.54	1.51	1.48	1.44	1.40	1.36	1.32	1.32	1.32	
Royal Bank of Canada	1.33	1.30	1.25	1.20	1.18	1.16	1.16	1.16	1.16	1.16	1.16	
The Toronto-Dominion Bank	1.00	0.97	0.94	0.91	0.88	0.86	0.84	0.82	0.76	0.76	0.76	

Notes:

(1) Dividends are adjusted for stock splits.

(2) Information based on dividends declared.

The information contained in the above section is historical and is not intended to be, nor should it be construed to be, an indication as to the future dividend levels of the common shares in the Portfolio.

### VOTING RIGHTS IN THE PORTFOLIO

Holders of the Preferred Shares and Class A Shares will have no voting rights in respect of the Bank shares comprising the Portfolio. Such shares will be voted in such manner as the Board of Directors of the Company shall determine.

### COVERED CALL OPTION WRITING

#### General

The writing of call options by the Company will involve the selling of call options in respect of the common shares of the Banks held in the Portfolio. Such call options may be either exchange traded options or over-the-counter options. The purchasers of over-the-counter options are generally major Canadian financial institutions. MCM believes that there is sufficient liquidity in the options market for the Company to write call options relating to the common shares of the Banks in the manner contemplated. As call options will be written only in respect of

common shares that are in the Portfolio and the investment criteria of the Company prohibit the sale of common shares subject to an outstanding option, the options will be covered at all times.

The holder of a call option will have the option, exercisable during a specific time period, to purchase the common shares underlying the option from the Company at the strike price per common share. By selling call options, the Company will receive option premiums, which are generally paid within one business day of the writing of the option. If at any time during the term of a call option, the market price of the underlying common shares is above the strike price, the holder of the option may exercise the option and the Company will be obligated to sell the underlying common shares to the holder at the strike price per common share. Alternatively, the Company may repurchase a call option which is in-the-money by paying the market value of the call option. However, if at expiration of the call option, the option is out-of-the-money, the holder of the option will likely not exercise the option and the option will expire. In each case, the Company will retain the option premium. See "Option Pricing".

The amount of an option premium depends, among other factors, upon the volatility of the price of the underlying security. The higher the volatility, the higher the option premium. In addition, the amount of the option premium will depend upon the difference between the strike price of the option and the market price of the underlying security at the time the option is written. The smaller the positive difference (or the larger the negative difference), the more likely the option will become in-the-money during the term and, accordingly, the greater the option premium. See "Option Pricing".

**If a call option is written on a common share in the Portfolio, the amounts that the Company will be able to realize on the common share during the term of the call option will be limited to the dividends received during such period plus an amount equal to the sum of the strike price and the premium received from writing the option. In essence, the Company will forgo potential returns resulting from any price appreciation of the common share underlying the option above the strike price in favour of the certainty of receiving the option premium.**

### Option Pricing

Many investors and financial market professionals price call options based on the Black-Scholes Model. In practice, however, actual option premiums are determined in the marketplace and there can be no assurance that the values generated by the Black-Scholes Model can be attained in the market.

Under the Black-Scholes Model (modified to include dividends), the primary factors which affect the option premium received by the seller of a call option are the following:

- |  |   |   |
|--|---|---|
| <i>the volatility of the price of the underlying security</i>  | → | the volatility of the price of a security measures the tendency of the price of the security to vary during a specified period. The higher the price volatility, the more likely the price of that security will fluctuate (either positively or negatively) and the greater the option premium. Price volatility is generally measured in percentage terms on an annualized basis, based on price changes during a period of time immediately prior to or "trailing" the date of calculation |
| <i>the difference between the strike price and the market price of the underlying security at the time the option is written</i> | → | the smaller the positive difference (or the larger the negative difference), the greater the option premium   |
| <i>the term of the option</i>  | → | the longer the term, the greater the option premium   |
| <i>the "risk-free" or benchmark interest rate in the market in which the option is issued</i>                                    | → | the higher the risk-free interest rate, the greater the option premium  |
| <i>the dividends expected to be paid on the underlying security during the relevant term</i>                                     | → | the greater the dividends, the lower the option premium   |

The table below illustrates the sensitivity of annualized option premiums from a call option writing program on a hypothetical portfolio of common shares to (i) the average volatility of the individual common shares comprising the hypothetical portfolio; and (ii) the excess of the strike price over the market price of the underlying shares expressed as a percentage of such market price at the time the options on the common shares in the hypothetical

portfolio are written (or percentage out-of-the-money). The option premiums are expressed as a percentage of the asset value of the portfolio and have been calculated using a Black-Scholes Model (modified to include dividends) based on the following assumptions:

1. the range of volatility shown in the table encompasses the range of the historical average volatility of the common shares of the Banks between 1991 and 1996;
2. all call options are exercisable at any time during their term and are written at the same percentage out-of-the-money;
3. all common shares comprising the portfolio are subject to 90 day call options throughout the relevant period (for illustrative purposes only — this assumption is not necessarily indicative of the extent to which covered call options will be written by the Company);
4. the risk-free or benchmark interest rate equals 3.39%; and
5. the average return from the dividends paid on the common shares comprising the hypothetical portfolio is 3.34%.

**Annualized Premiums from Covered Call Option Writing (measured as a % return) (1)**

		Average Volatility of the Individual Common Shares in the Portfolio								
		10%	12%	14%	16%	18%	20%	22%	24%	26%
% Out-Of-the-Money	5%	1.7	2.8	4.0	5.3	6.7	8.1	9.5	11.0	12.5
	4%	2.5	3.7	5.0	6.4	7.9	9.3	10.8	12.3	13.9
	3%	3.4	4.8	6.2	7.7	9.2	10.7	12.2	13.8	15.3
	2%	4.6	6.1	7.6	9.1	10.7	12.2	13.8	15.4	16.9
	1%	6.1	7.6	9.2	10.8	12.3	13.9	15.5	17.1	18.6

Note

(1) Measured as a percentage return on the asset value of the hypothetical portfolio

The information set forth above is provided for illustrative purposes only and should not be construed as a forecast or projection. No assurance can be given that the returns shown in this sensitivity analysis would ever be available or realized. The range of percentage out-of-the-money shown in the above table is based on the range generally utilized by MCM in writing call options.

**Volatility History**

The following table sets forth the trailing 90 day volatility (expressed in percentage terms on an annualized basis) as at the dates indicated below in respect of the common shares of the Banks:

Issuer	Trailing 90 Day Volatility (annualized %) (1)					
	September 30 1996	Dec. 31 1995	Dec. 31 1994	Dec. 31 1993	Dec. 31 1992	Dec. 31 1991
Bank of Montreal	13.1	16.8	14.1	18.9	17.1	14.7
The Bank of Nova Scotia	15.7	18.7	14.3	15.2	22.7	21.9
Canadian Imperial Bank of Commerce	11.5	17.6	13.8	15.2	18.1	18.0
Royal Bank of Canada	15.0	20.2	15.3	14.6	20.4	18.8
The Toronto-Dominion Bank	19.4	18.9	16.3	16.2	22.1	22.0

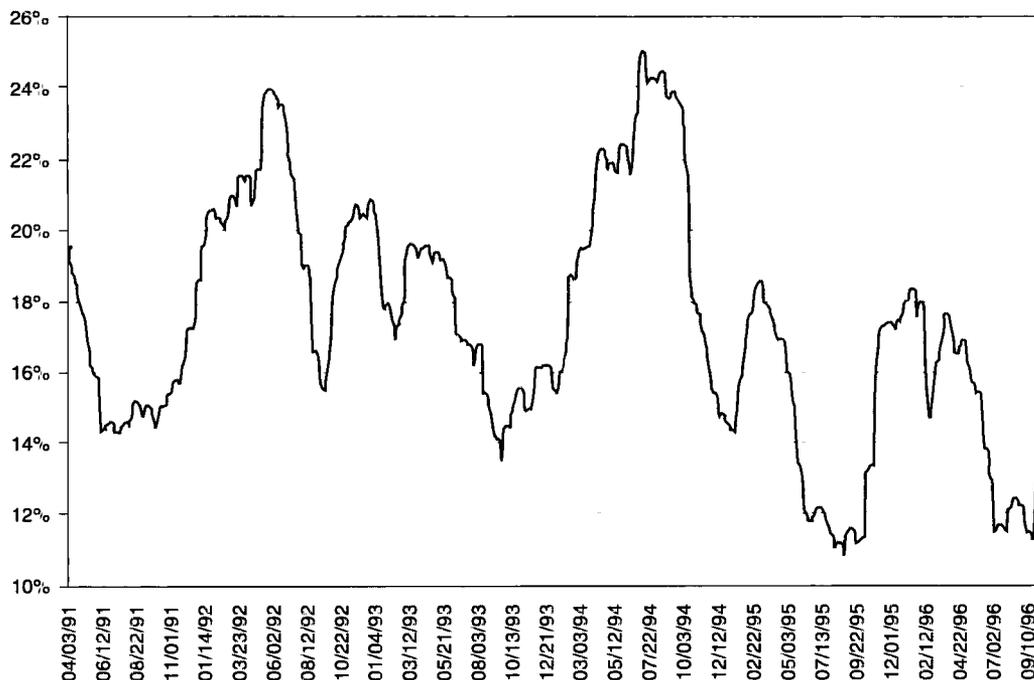
Note

(1) In calculating volatility, prices of common shares have been adjusted for stock splits.

The information set forth above is historical and is not intended to be, nor should be construed to be, an indication as to the future volatility levels of the common shares in the Portfolio.

The historical average of the trailing 90 day volatility (expressed in percentage terms on an annualized basis) of the common shares of each of the Banks, based on prices from January 1, 1991 to September 30, 1996, ranged from a low of 11.3% to a high of 25.3% with an average of 17.5% as illustrated below:

**Average Price Volatility of the Common Shares of the Banks**



**Sensitivity Analysis — Class A Shares**

The table below represents an assessment of the sensitivity of the net return to holders of Class A Shares from dividends and option premiums of the Company (excluding any gains or losses on Portfolio investments, dividend increases or decreases and any amounts paid to close out in-the-money options) to (i) the average volatility of the individual common shares of the Banks comprising the Portfolio; and (ii) the excess of the strike price over the market price of the common shares expressed as a percentage of such market price at the time the option is written (or percentage out-of-the-money) using a modified Black-Scholes Model based on the following assumptions:

1. the net proceeds from these offerings are \$95,670,000 and are fully invested in common shares of the Banks;
2. 20% of the net assets of the Company are invested in the common shares of each of the five Banks;
3. the range of volatility shown in the table encompasses the range of the historical average volatility of the common shares in the Portfolio;
4. all call options are exercisable at any time during their term and are written at the same percentage out-of-the-money;
5. all common shares comprising the Portfolio are subject to 90 day call options throughout the relevant period (for illustrative purposes only — this assumption is not necessarily indicative of the extent to which covered call options will be written by the Company);
6. the risk-free or benchmark interest rate equals 3.39%;
7. the average return from the dividends paid on the common shares in the Portfolio is 3.34%;
8. there are no capital gains or losses on the common shares in the Portfolio for the period during which the call options are outstanding;
9. annual expenses of the Company (ordinary and extraordinary) are \$185,000 plus the fees payable to MCM and Mulvihill totalling 0.90% of the net asset value of the Company, and
10. all obligations to the holders of the Preferred Shares have been met.

This information is provided for illustrative purposes only and should not be construed as a forecast or projection. No assurance can be given that the returns shown in this sensitivity analysis will ever be available or realized. The range of percentage out-of-the-money shown in the following table is based on the range generally utilized by MCM in writing call options.

**Return (Net of Expenses) on Class A Shares from Option Premiums and Dividends (annualized %)**

		Average Volatility of the Individual Common Shares in the Portfolio								
		<u>10%</u>	<u>12%</u>	<u>14%</u>	<u>16%</u>	<u>18%</u>	<u>20%</u>	<u>22%</u>	<u>24%</u>	<u>26%</u>
% Out-Of-the-Money	5%	0.7	3.3	6.2	9.3	12.5	15.9	19.3	22.9	26.4
	4%	2.4	5.4	8.6	11.9	15.3	18.9	22.4	26.0	29.7
	3%	4.7	8.0	11.4	14.9	18.5	22.1	25.8	29.5	33.2
	2%	7.5	11.1	14.7	18.4	22.1	25.8	29.5	33.2	37.0
	1%	11.1	14.8	18.5	22.3	26.0	29.8	33.5	37.3	41.1

**Use of Other Derivative Instruments**

In addition to writing covered call options and to the extent permitted by Canadian securities regulators from time to time, the Company may purchase call options with the effect of closing out existing call options written by the Company and may also purchase put options in order to protect the Company from declines in the market of the securities in the Portfolio. The Company may enter into trades to close out positions in such permitted derivatives.

**THE BANKS**

The information that follows relating to each of the Banks and their subsidiaries is based upon the most recent Annual Information Form of each of the Banks. Any annual information forms, material change reports (excluding confidential reports), interim financial statements and information circulars filed by each of the Banks with the various securities commissions or similar authorities in Canada after the date of this prospectus and prior to the termination of the offerings made hereby, shall be deemed to be incorporated by reference into this prospectus. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus. The foregoing reports and other documents may be inspected at the offices of the respective securities commissions and regulatory authorities (or their representatives which in the case of the Ontario Securities Commission is Micromedia Limited) at which they are filed. More comprehensive financial and other information is contained in such reports and the following summary is qualified by reference to such reports and other documents and all of the financial information and notes contained therein.

The Company, the Promoter and the Agents have had no access to any information about the Banks other than information in such publicly filed reports and other documents. Further, the Company, the Promoter and the Agents have not had an opportunity to verify the accuracy or completeness of any information contained in such reports and other documents or to determine if there has been any omission by any of the Banks to disclose any facts, information or events which may have occurred prior to or subsequent to the date as of which any information contained in such reports and other documents has been furnished by any of such Banks or which may affect the significance or accuracy of any information contained in any such reports and other documents and summarized herein. Prospective purchasers should consult their own investment advisors for advice with respect to the merits of an investment in the common shares of the Banks.

The selected financial information which is referred to below has been excerpted or derived from the above-described publicly filed reports and other documents of the Banks.

**Bank of Montreal**

The information contained herein relating to Bank of Montreal ("BMO") and its subsidiaries is based upon BMO's Annual Information Form dated December 13, 1995. Such Annual Information Form is specifically

incorporated by reference and forms an integral part of this prospectus. The following documents are also specifically incorporated by reference and form an integral part of this prospectus:

- (a) BMO's 1995 Annual Report (including Management's Discussion and Analysis of Operating Results and Financial Condition contained therein);
- (b) BMO's Notice of the Annual Meeting of Shareholders held on January 15, 1996 and Management Proxy Circular dated December 13, 1995; and
- (c) BMO's 1996 Third Quarter Report (nine months ended July 31, 1996).

#### *Description of BMO*

BMO was incorporated in 1821 by an Act of Lower Canada as the first Canadian chartered bank. BMO is a Schedule I bank under the Bank Act (Canada) and such Act is its charter. BMO's head office is located at 129 rue St. Jacques, Montreal, Quebec, H2Y 1L6, and its executive offices are located at 1 First Canadian Place, Toronto, Ontario, M5X 1A1.

In terms of assets as at July 31, 1996, BMO is the third largest chartered bank in Canada. BMO offers a broad range of credit and non-credit products and services directly and through special-purpose domestic and foreign subsidiaries. Individuals and small to mid-size businesses operating in Canada are serviced through "Personal and Commercial Financial Services". Large corporations, financial institutions and governments are serviced through "Corporate and Institutional Financial Services". Two subsidiaries independent of these groups, Harris Bankcorp, Inc and Banco de Montreal S.A., work closely with them, but operate their own banking businesses directly and through subsidiaries in the United States and Brazil, respectively.

#### *Selected Financial Information*

The following represents an historical summary of selected financial data pertaining to BMO, which selected financial data was derived from the publicly filed reports and other documents of BMO.

	Nine months ended July 31 1996	Year Ended October 31				
		1995	1994	1993	1992	1991
(millions of dollars except number of common shares outstanding and per share data)						
Net income available to common shareholders (loss) .....	825	917	756	641	576	544
Total assets .....	162,546	151,834	138,175	116,869	109,035	98,725
Loans .....	96,284	88,442	88,634	74,028	68,251	60,172
Deposits .....	118,108	109,605	98,241	87,859	86,601	77,769
Capital .....	10,826	9,010	8,231	7,841	6,682	5,952
Provisions for credit losses .....	181	275	510	675	550	337
Number of common shares (millions) ..	262	264	266	249	245	239
Per Common Share (in dollars)						
Earnings						
Basic .....	3.15	3.45	3.01	2.59	2.38	2.31
Fully Diluted .....	3.09	3.38	2.97	2.55	2.36	2.31
Dividends Declared ..	1.08	1.32	1.20	1.12	1.06	1.06
Book Value ..	25.52	23.41	21.39	19.40	17.69	16.05

#### *The Bank of Nova Scotia*

The information contained herein relating to The Bank of Nova Scotia ("BNS") and its subsidiaries is based upon BNS's Annual Information Form dated November 29, 1995. Such Annual Information Form is specifically incorporated by reference and forms an integral part of this prospectus. The following documents are also specifically incorporated by reference and form an integral part of this prospectus:

- (a) BNS's 1995 Annual Report (including Management's Discussion and Analysis of Financial Condition and Results of Operations contained therein);

- (b) BNS's Notice of the Annual Meeting of Shareholders held on December 14, 1995 and Management Proxy Circular dated November 22, 1995; and
- (c) BNS's 1996 Third Quarter Report (nine months ended July 31, 1996).

**Description of BNS**

BNS was granted a charter under the laws of the Province of Nova Scotia in 1832 and commenced operations in Halifax, Nova Scotia in that year. BNS is a Schedule I bank under the Bank Act (Canada) and such Act is its charter. BNS's head office is located at 1709 Hollis Street, Halifax, Nova Scotia, and the executive offices are at Scotia Plaza, 44 King Street West, Toronto, Ontario, M5H 1H1.

In terms of total assets as at July 31, 1996, BNS is the fourth largest chartered bank in Canada. BNS is a full-service banking institution, active in both domestic and international markets. In Canada, BNS provides a full range of retail, commercial and corporate banking services through its extensive network of branches in all the provinces and territories. BNS also provides a full range of corporate and personal trust services through its Scotiabank and Montreal Trust subsidiaries. Outside Canada, BNS has branches and offices in over 40 countries which provide a wide range of banking and related financial services, either directly or through subsidiary and associated banks, trust companies and other financial firms.

**Selected Financial Information**

The following represents an historical summary of selected financial data pertaining to BNS, which selected financial data was derived from the publicly filed reports and other documents of BNS.

	Nine months ended July 31 1996	Year Ended October 31				
		1995	1994	1993	1992	1991
(millions of dollars except number of common shares outstanding and per share data)						
Net income available to common shareholders (loss) . . . . .	702	772	385	622	597	554
Total assets . . . . .	158,090	147,189	132,928	106,510	97,377	88,155
Loans . . . . .	100,866	97,088	86,779	72,204	68,052	62,131
Deposits . . . . .	118,463	111,345	99,755	77,748	76,627	67,833
Capital . . . . .	10,692	10,189	9,205	8,749	6,927	6,241
Provisions for credit losses . . . . .	285	560	567	465	449	374
Number of common shares (millions)	233	232	226	211	206	201
Per Common Share (in dollars)						
Earnings						
Basic . . . . .	3.00	3.38	1.76	2.98	2.94	2.81
Fully Diluted . . . . .	3.00	3.38	1.76	2.98	2.94	2.81
Dividends Declared . . . . .	0.96	1.24	1.16	1.12	1.04	1.00
Book Value . . . . .	26.43	24.73	22.72	21.79	19.78	17.59

**Canadian Imperial Bank of Commerce**

The information contained herein relating to Canadian Imperial Bank of Commerce ("CIBC") and its subsidiaries is based upon CIBC's Annual Information Form dated December 7, 1995. Such Annual Information Form is specifically incorporated by reference and forms an integral part of this prospectus. The following documents are also specifically incorporated by reference and form an integral part of this prospectus:

- (a) CIBC's 1995 Annual Report (including Management's Discussion and Analysis of Operating Results and Financial Condition contained therein);
- (b) CIBC's Notice of the Annual Meeting of Shareholders dated December 7, 1995 and Management Proxy Circular dated January 18, 1996; and
- (c) CIBC's 1996 Third Quarter Report (nine months ended July 31, 1996).

### *Description of CIBC*

CIBC was formed in 1961 through the amalgamation of The Canadian Bank of Commerce, established in 1858, and Imperial Bank of Canada, established in 1875. CIBC is a Schedule I bank under the Bank Act (Canada) and such Act is its charter. CIBC's head office is located at Commerce Court West, Commerce Court Postal Station, Toronto, Ontario, M5L 1A2.

In terms of assets as at July 31, 1996, CIBC is the second largest bank in Canada. CIBC provides a complete range of financial services to customers and businesses across Canada and around the world.

### *Selected Financial Information*

The following represents an historical summary of selected financial data pertaining to CIBC, which selected financial data was derived from the publicly filed reports and other documents of CIBC.

	Nine months ended July 31 1996	Year Ended October 31				
		1995	1994	1993	1992	1991
(millions of dollars except number of common shares outstanding and per share data)						
Net income available to common shareholders (loss) . . . . .	944	904	749	599	(108)	710
Total assets . . . . .	190,370	179,244	151,033	141,299	132,212	121,025
Loans . . . . .	125,324	110,121	99,938	97,181	94,927	86,361
Deposits . . . . .	126,542	129,484	115,462	110,905	107,018	95,471
Capital . . . . .	12,128	11,436	11,274	10,673	9,277	9,029
Provisions for credit losses . . . . .	360	680	880	920	1,835	613
Number of common shares (millions) . . . .	206	216	216	210	189	184
Per Common Share (in dollars)						
Earnings						
Basic . . . . .	4.54	4.18	3.52	2.99	(0.59)	3.93
Fully Diluted . . . . .	4.54	4.18	3.52	2.99	(0.59)	3.93
Dividends Declared . . . . .	1.25	1.48	1.32	1.32	1.32	1.32
Book Value . . . . .	36.33	33.85	31.18	28.90	27.44	29.41

### **Royal Bank of Canada**

The information contained herein relating to Royal Bank of Canada ("RBC") and its subsidiaries is based upon RBC's Annual Information Form dated December 5, 1995. Such Annual Information Form is specifically incorporated by reference and forms an integral part of this prospectus. The following documents are also specifically incorporated by reference and form an integral part of this prospectus:

- (a) RBC's 1995 Annual Report (including the Management Analysis of Operations contained therein);
- (b) RBC's Notice of the Annual Meeting of Shareholders and Management Proxy Circular dated January 23, 1996; and
- (c) RBC's 1996 Third Quarter Report (nine months ended July 31, 1996).

### *Description of RBC*

RBC was granted a charter in 1869. RBC is a Schedule I bank under the Bank Act (Canada) and such Act is its charter. RBC's head office is located at 1 Place Ville Marie, Montreal, Quebec, H3C 3A9.

In terms of assets as at July 31, 1996, RBC is the largest chartered bank in Canada. Outside Canada, RBC operates in 35 countries through more than 100 business units. These units deliver corporate banking, investment banking and treasury products to institutional clients as well as private banking services to individuals.

### *Selected Financial Information*

The following represents an historical summary of selected financial data pertaining to RBC, which selected financial data was derived from the publicly filed reports and other documents of RBC.

	Nine months ended July 31 1996	Year Ended October 31				
		1995	1994	1993	1992	1991
(millions of dollars except number of common shares outstanding and per share data)						
Net income available to common shareholders (loss) . . . . .	943	1,098	1,001	146	(16)	880
Total assets . . . . .	201,126	183,652	173,079	164,941	138,293	132,352
Loans . . . . .	127,641	119,577	115,386	116,469	100,137	98,344
Deposits . . . . .	150,317	143,491	135,815	130,399	112,222	105,022
Capital . . . . .	12,457	11,913	11,525	10,941	10,483	10,686
Provisions for credit losses . . . . .	330	580	820	1,750	2,050	605
Number of common shares (millions)	314	314	314	314	314	306
Per Common Share (in dollars)						
Earnings						
Basic . . . . .	3.00	3.49	3.19	0.46	(0.05)	2.92
Fully Diluted . . . . .	3.00	3.49	3.19	0.46	(0.05)	2.92
Dividends Declared . . . . .	0.99	1.16	1.16	1.16	1.16	1.16
Book Value . . . . .	24.19	22.42	20.13	18.09	18.82	19.91

### **The Toronto-Dominion Bank**

The information contained herein relating to The Toronto-Dominion Bank ("TD") and its subsidiaries is based upon TD's Annual Information Form dated March 8, 1996. Such Annual Information Form is specifically incorporated by reference and forms an integral part of this prospectus. The following documents are also specifically incorporated by reference and form an integral part of this prospectus:

- (a) TD's 1995 Annual Report (including the Management's Discussion and Analysis of Operating Performance contained therein);
- (b) TD's Notice of the Annual Meeting of Shareholders dated December 18, 1995 and Management Proxy Circular dated November 20, 1995; and
- (c) TD's 1996 Third Quarter Report (nine months ended July 31, 1996).

### *Description of TD*

TD was formed in February 1, 1955 through the amalgamation of The Bank of Toronto, established in 1855, and The Dominion Bank, established in 1869. TD is a Schedule I bank under the Bank Act (Canada) and such Act is its charter. TD's head office is located at Toronto-Dominion Bank Tower, Toronto-Dominion Centre, Toronto, Ontario, M5K 1A2.

In terms of assets as at July 31, 1996, TD is the fifth largest chartered bank in Canada. In Canada, TD provides a wide range of financial products and services to individuals, corporate and commercial enterprises, financial institutions and governments through its network of branches and subsidiary offices. Internationally, TD offers a broad range of credit, non-credit and financial advisory services to businesses, multinational corporations, governments and correspondent banks through offices in the U.S. and internationally in financial capitals including Bombay, Hong Kong, London, Mexico City, Singapore, Taipei, Tokyo and through its subsidiary bank in Australia.

### Selected Financial Information

The following represents an historical summary of selected financial data pertaining to TD, which selected financial data was derived from the publicly filed reports and other documents of TD.

	Nine months ended July 31 1996	Year Ended October 31				
		1995	1994	1993	1992	1991
(millions of dollars except number of common shares outstanding and per share data)						
Net income available to common shareholders (loss) .....	641	756	643	246	376	453
Total assets .....	118,743	108,806	99,759	85,011	74,133	68,905
Loans .....	80,094	72,687	68,861	62,580	54,236	52,168
Deposits .....	84,624	81,131	80,463	67,739	59,691	54,673
Capital .....	8,601	8,376	8,118	7,195	6,575	5,703
Provisions for credit losses .....	128	180	345	600	543	485
Number of common shares (millions) .....	292	301	301	301	301	301
Per Common Share (in dollars)						
Earnings						
Basic .....	2.14	2.51	2.14	0.82	1.25	1.51
Fully Diluted .....	2.10	2.51	2.14	0.82	1.25	1.51
Dividends Declared .....	0.75	0.88	0.79	0.76	0.76	0.76
Book Value .....	19.69	18.31	16.74	15.30	15.14	14.55

### MANAGEMENT OF THE COMPANY

#### Directors and Officers

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

<u>Name and municipality of residence</u>	<u>Office</u>	<u>Principal occupation</u>
ROBERT W. KORTHALS .....	Director	Corporate Director
Toronto, Ontario		
R. JOHN LAWRENCE .....	Director	Chairman
Toronto, Ontario		Lawrence & Company (private investment company)
C. EDWARD MEDLAND .....	Director	President
Toronto, Ontario		Beauwood Investments Inc. (private investment company)
JOHN P. MULVIHILL .....	President, Secretary and Director	Chairman and President, MCM
Toronto, Ontario		
DAVID N. MIDDLETON .....	Chief Financial Officer and Director	Vice President, Finance, MCM
Toronto, Ontario		

Except as indicated below, each of the foregoing has held his current office or has held a similar office during the five years preceding the date hereof.

Robert W. Korthals was President of The Toronto-Dominion Bank from May 1981 until January 31, 1995. R. John Lawrence was Deputy Chairman of Nesbitt Burns Inc. and Chairman and Chief Executive Officer of Bank of Montreal Investment Counsel Limited from September 1994 to October 1995 and was Chairman of Burns Fry Limited and Chairman and Chief Executive Officer of Burns Fry Holdings Limited from November 1990 to September 1994. Prior to joining MCM, David N. Middleton was Manager of Finance, Creson Corporation, Toronto, Ontario from March, 1990 to March, 1995.

**The Manager**

Pursuant to the Management Agreement, Mulvihill is the manager of the Company and, as such, is responsible for providing or arranging for required administrative services to the Company including, without limitation: authorizing the payment of operating expenses incurred on behalf of the Company; preparing financial statements, financial and accounting information as required by the Company; ensuring that shareholders are provided with financial statements (including semi-annual and annual financial statements) and other reports as are from time to time required by applicable law; ensuring that the Company complies with regulatory requirements and applicable stock exchange listing requirements; preparing the Company's reports to shareholders and the Canadian securities regulatory authorities; determining the amount of dividends to be made by the Company; and negotiating contractual agreements with third-party providers of services, including registrars, transfer agents, auditors and printers.

Mulvihill is a wholly-owned subsidiary of MCM.

Mulvihill shall exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of shareholders, and in connection therewith, shall exercise the degree of care, diligence and skill that a reasonably prudent manager would exercise in similar circumstances.

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

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

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

The name and municipality of residence of each of the directors and officers of Mulvihill are as follows:

- John P. Mulvihill . . . . . President, Secretary and Director  
Toronto, Ontario
- David N. Middleton . . . . . Treasurer and Director  
Toronto, Ontario
- John H. Simpson . . . . . Director  
Toronto, Ontario

**The Investment Manager**

MCM will manage the Company's investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Company pursuant to an investment management agreement (the "Investment Management Agreement") made between the Company and MCM dated October 17, 1996.

MCM was incorporated in 1984 by The Canada Trust Company under the name CT Investment Counsel Inc. ("CTIC") to manage the institutional pension fund business of The Canada Trust Company. In 1985, The Canada Trust Company and The Canada Permanent Trust Company amalgamated resulting in all of the pension assets managed by The Canada Permanent Trust Company being transferred to CTIC management. In addition, the investment professionals of The Canada Permanent Trust Company joined the CTIC team.

In February 1995, John P. Mulvihill purchased 100% of CTIC from The Canada Trust Company and changed CTIC's name to Mulvihill Capital Management Inc. During 1995, MCM also established a wealth management division headed by John H. Simpson, who joined the firm from Fidelity Investments Canada Limited.

**Directors and Officers of MCM**

The name and municipality of residence of the Director and each of the officers of MCM are as follows:

John P. Mulvihill . . . . .	Chairman, President, Secretary, Treasurer and Director
Toronto, Ontario	
John A. Boyd . . . . .	Vice President
Toronto, Ontario	
S. Wayne Finch . . . . .	Vice President
Bramalea, Ontario	
Alan C. Leach . . . . .	Vice President
Scarborough, Ontario	
David N. Middleton . . . . .	Vice President, Finance
Toronto, Ontario	
Thomas G. Poff . . . . .	Vice President
Islington, Ontario	
Robert K. Ross . . . . .	Vice President
Mississauga, Ontario	
John H. Simpson . . . . .	Senior Vice President
Toronto, Ontario	
Michael F. Walsh . . . . .	Vice President, Marketing and Sales
Burlington, Ontario	

Except as indicated below, each of the foregoing has held his current office or has held a similar office in MCM during the five years preceding the date hereof.

Prior to joining MCM, S. Wayne Finch was a Portfolio Manager, Treasury, Canada Trust, Toronto, Ontario from November, 1989 to August, 1994. David N. Middleton was Manager of Finance, Creson Corporation, Toronto, Ontario from March, 1990 to March, 1995. John H. Simpson was President of Fidelity Investments Canada Limited, Toronto, Ontario from July, 1992 to March, 1995. Prior to becoming President, Mr. Simpson was Executive Vice President and Vice President Marketing of Fidelity Investments Canada Limited from September, 1987 to July, 1992. Prior to joining MCM in May, 1996, Michael F. Walsh spent nine years as Director of Research and Investment Marketing for Edgcombe Group Inc.

The team of individuals responsible for investment management at MCM all have significant experience in managing investment portfolios. The officers of MCM who will primarily be responsible for the management of the Portfolio will be John P. Mulvihill and S. Wayne Finch.

John P. Mulvihill, Chairman of MCM, is the senior portfolio manager of MCM and has over 25 years of investment management experience. Prior to purchasing CTIC from The Canada Trust Company, Mr. Mulvihill had been Chairman of CTIC since 1988. At CTIC he had primary responsibility for the asset allocation and portfolio management of CTIC's pension and mutual fund assets.

S. Wayne Finch, Vice President of MCM, has extensive experience in managing portfolios similar to that proposed for the Company. Prior to joining MCM, Mr. Finch was a portfolio manager in the treasury operations of The Canada Trust Company where he managed corporate equity portfolios.

Messrs. Mulvihill and Finch are also the portfolio managers of First Premium Income Trust, which completed an offering of \$165,000,000 of Units pursuant to a prospectus dated June 21, 1996, and which employs a similar investment strategy to that of the Company.

**Ownership of MCM**

MCM is controlled by John P. Mulvihill.

### ***Investment Management Agreement***

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

Under the Investment Management Agreement, MCM is required to act at all times on a basis which is fair and reasonable to the Company, to act honestly and in good faith with a view to the best interests of the shareholders of the Company and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent portfolio manager would exercise in comparable circumstances. The Investment Management Agreement provides that MCM shall not be liable in any way for any default, failure or defect in any of the securities comprising the Portfolio, nor shall it be liable if it has satisfied the duties and standard of care, diligence and skill set forth above. However, MCM will incur liability in cases of willful misfeasance, bad faith, negligence or breach of its obligations under the Investment Management Agreement.

The Investment Management Agreement, unless terminated as described below, will continue in effect until the redemption of the Preferred Shares and Class A Shares on November 1, 2003. The Company may terminate the Investment Management Agreement if MCM has committed certain events of bankruptcy or insolvency or is in material breach or default of the provisions thereof and such breach has not been cured within 30 days after notice thereof has been given to MCM. Except as described above, MCM cannot be terminated as investment manager of the Company.

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

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

MCM is entitled to fees for its services under the Investment Management Agreement as described under "Fees and Expenses" and will be reimbursed for all reasonable costs and expenses incurred by MCM on behalf of the Company. In addition, MCM and each of its directors, officers, employees and agents will be indemnified by the Company for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced or other claims that is made against MCM or any of its officers, directors, employees or agents in the exercise of its duties as investment manager, except those resulting from MCM's willful misconduct, bad faith, negligence or breach of its obligations under the Investment Management Agreement.

### ***Conflicts of Interest***

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

## DESCRIPTION OF SHARE CAPITAL

The Company is authorized to issue an unlimited number of Class A Shares and Preferred Shares and 1,000 Class B Shares of which, before giving effect to the offerings under this prospectus, there are issued and outstanding 1,000 Class B Shares. The attributes of the Class A Shares and the Preferred Shares are described under "Details of the Offerings".

The holders of Class B Shares are not entitled to receive dividends. The holders of the Class B Shares will be entitled to one vote per share. The Class B Shares are retractable at a price of \$1.00 per share. The Class B Shares rank subsequent to both the Preferred Shares and the Class A Shares with respect to distributions on the dissolution, liquidation or winding-up of the Company.

MCM owns all of the issued and outstanding Class B Shares. See "Principal Shareholder".

The Company does not currently intend to issue additional Preferred Shares or Class A Shares following completion of these offerings.

## DETAILS OF THE OFFERINGS

The following is a summary of certain provisions of the Preferred Shares and Class A Shares offered hereby.

### Net Asset Value and NAV Per Unit

The Net Asset Value of the Company ("NAV") on a particular date will be equal to (i) the aggregate value of the assets of the Company, less (ii) the aggregate value of the liabilities of the Company, including any dividends declared and not paid that are payable to shareholders on or before such date, less (iii) the stated capital of the Class B Shares (\$1,000). The "NAV per Unit" on any day is obtained by dividing the NAV of the Company on such day by the number of Units outstanding on that day.

The NAV per Unit will be calculated on the fifteenth day of each month and on each Valuation Date. Such information will be provided by the Company to shareholders on request.

In determining the NAV of the Company at any time:

- (i) the value of a common share of a Bank will be the last board lot sale price of such a share on The Toronto Stock Exchange prior to the determination of the NAV or if such sale price is not available, the closing price quoted for the share, unless bid and ask quotes are available, in which case the value will be the average of such quotes rather than the quoted closing price,
- (ii) an option premium received by the Company will, so long as the option is outstanding, be reflected as a deferred credit which will be valued at an amount equal to the current market value of an option which would have the effect of closing the position; any difference resulting from revaluation shall be treated as an unrealized gain or loss on investment. The deferred credit shall be deducted in arriving at the NAV;
- (iii) the value of any cash on hand or on deposit, prepaid expenses, cash dividends declared and interest accrued and not yet received, shall be deemed to be the face amount thereof unless the Company determines that any such asset is not worth the face amount thereof, in which event the value thereof shall be deemed to be such value as the Company determines to be the fair value thereof;
- (iv) notes, money market instruments and other debt securities shall be valued by taking the bid price at the calculation time;
- (v) if a Valuation Date is not a business day, then the securities comprising the Portfolio and other Company property will be valued as if such Valuation Date was the preceding business day; and
- (vi) if an investment cannot be valued under the foregoing rules or if the foregoing rules are at any time considered by the Company to be inappropriate under the circumstances, then notwithstanding the foregoing rules, the Company shall make such valuation as it considers fair and reasonable.

### Certain Provisions of the Preferred Shares

#### *Dividends*

The Company will pay a cumulative preferential quarterly dividend of \$0.215625 per share (to yield 5.75% per annum) to holders of Preferred Shares on the last day of January, April, July and October in each year

(a "Dividend Payment Date") commencing on January 31, 1997. The initial dividend on the Preferred Shares will be payable on January 31, 1997 and based on a closing date of October 30, 1996 is expected to be \$0.220351 per share. In the event that dividends earned by the Company on the Portfolio are not sufficient on any Dividend Payment Date to cover the full amount of the dividends payable to holders of Preferred Shares on that date, the balance of the dividends payable will be paid as capital gains dividends out of net realized capital gains and option premiums (other than option premiums in respect of options outstanding at year end) earned by the Company on the Portfolio. To the extent that a quarterly dividend is a capital gains dividend funded by net realized capital gains or option premiums, holders of Preferred Shares will receive an additional capital gains dividend of \$0.068 for each \$1.00 of Preferred Share dividend so funded to compensate for the difference in tax treatment between dividend income and capital gains

Dividends will be payable to registered holders of Preferred Shares of record at 5:00 p.m. (Toronto time) on the Dividend Payment Date. All dividends will be paid by cheque and will be mailed to such registered shareholders at their addresses listed in the register of shareholders to be maintained by the Company's registrar and transfer agent or paid in such other manner as may be agreed to by the Company. See "Book-Based System". Each holder of Preferred Shares will be mailed annually, no later than March 31, information necessary to enable such shareholder to complete an income tax return with respect to amounts paid or payable by the Company in respect of the preceding calendar year. See "Canadian Federal Income Tax Considerations".

### ***Redemptions***

All Preferred Shares outstanding on November 1, 2003 will be redeemed by the Company on such date. The redemption price payable by the Company for a Preferred Share on that date will be equal to the lesser of: (i) \$15.00; and (ii) the NAV on that date divided by the total number of Preferred Shares then outstanding.

Notice of redemption will be given to CDS Participants holding Preferred Shares on behalf of the beneficial owners thereof at least 30 days prior to November 1, 2003.

### ***Retraction Privileges***

Preferred Shares may be surrendered at any time for retraction to Montreal Trust Company of Canada, the Company's registrar and transfer agent, but will be retracted only on the monthly Valuation Date (as defined below). Preferred Shares surrendered for retraction by a shareholder at least five business days prior to the last day of a month (a "Valuation Date") will be retracted on such Valuation Date and the shareholder will receive payment on or before the fifth business day following such Valuation Date (the "Retraction Payment Date"). If a shareholder makes such surrender after 5:00 p.m. (Toronto time) on the fifth business day immediately preceding a Valuation Date, the shares will be retracted on the Valuation Date in the following month and the shareholder will receive payment for the retracted shares on the Retraction Payment Date in respect of such Valuation Date.

Except as noted below, holders of Preferred Shares whose shares are surrendered for retraction will be entitled to receive a retraction price per share ("Preferred Share Retraction Price") equal to 96% of the lesser of (i) the NAV per Unit determined as of such Valuation Date less the cost to the Company of the purchase of a Class A Share in the market for cancellation; and (ii) \$15.00. For this purpose, the cost of the purchase of a Class A Share will include the purchase price of the Class A Share, commission and such other costs, if any, related to the liquidation of any portion of the Portfolio to fund the purchase of the Class A Share. Any declared and unpaid dividends payable on or before a Valuation Date in respect of Preferred Shares tendered for retraction on such Valuation Date will also be paid on the Retraction Payment Date.

Holders of Preferred Shares also have an annual retraction right under which they may concurrently retract one Preferred Share and one Class A Share on the October Valuation Date, commencing on the October 1997 Valuation Date. The price paid by the Company for such a concurrent retraction will be equal to the NAV per Unit.

As disclosed below under "Details of the Offerings — Certain Provisions of the Preferred Shares — Resale of Preferred Shares Tendered for Retraction", where the holder of Preferred Shares tendered for retraction has not withheld his consent thereto in the manner provided in the retraction notice delivered to The Canadian Depository For Securities Limited ("CDS") through a participant in the CDS book-based system (a "CDS Participant"), the Company may, but is not obligated to, require the Recirculation Agent (as defined below) to use its best efforts to find purchasers for any Preferred Shares tendered for retraction prior to the relevant Retraction Payment Date pursuant to the Recirculation Agreement (as defined below). In such event, the amount to be paid to the holder of

the Preferred Shares on the Retraction Payment Date will be an amount equal to the proceeds of the sale of the Preferred Shares less any applicable commission. Such amount will not be less than the Preferred Share Retraction Price described above. Holders of Preferred Shares are free to withhold their consent to such treatment and to require the Company to retract their Preferred Shares in accordance with their terms.

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

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

If any Preferred Shares are tendered for retraction and are not resold in the manner described below under "Details of the Offerings — Certain Provisions of the Preferred Shares — Resale of Preferred Shares Tendered for Retraction", the Company has directed the Recirculation Agent to purchase for cancellation on behalf of the Company that number of Class A Shares which equals the number of Preferred Shares so retracted. Any Class A Shares so purchased for cancellation will be purchased in the market.

#### ***Resale of Preferred Shares Tendered for Retraction***

The Company has entered into an agreement (the "Recirculation Agreement") with Richardson Greenshields of Canada Limited (the "Recirculation Agent") whereby the Recirculation Agent has agreed to use its best efforts to find purchasers for any Preferred Shares tendered for retraction prior to the relevant Retraction Payment Date, provided that the holder of the Preferred Shares so tendered has not withheld consent thereto. The Company is not obligated to require the Recirculation Agent to seek such purchasers but may elect to do so. In the event that a purchaser for such Preferred Shares is found in this manner, the amount to be paid to the holder of the Preferred Shares on the relevant Retraction Payment Date will be an amount equal to the proceeds of the sale of the Preferred Shares less any applicable commission. Such amount will not be less than the applicable Preferred Share Retraction Price described above.

#### ***Priority***

The Preferred Shares rank in priority to the Class A Shares and the Class B Shares with respect to the payment of dividends and the repayment of capital on the dissolution, liquidation or winding up of the Company.

#### **Certain Provisions of the Class A Shares**

##### ***Dividends***

The policy of the Board of Directors of the Company with respect to the payment of dividends on the Class A Shares is to pay out in each year to holders of Class A Shares all net realized capital gains, dividends and option premiums (other than option premiums in respect of options outstanding at year end) earned on the Portfolio, net of applicable expenses and any available loss carry-forwards, that are in excess of the amount of dividends paid to holders of Preferred Shares. The Company will endeavour to declare and pay quarterly dividends to holders of Class A Shares on the last day of January, April and July and to pay the balance, if any, by way of a special year-end dividend on the last day of October in each year. The Company will endeavour to declare and pay its initial dividend on the Class A Shares on January 31, 1997. However, there can be no assurance that the Company will be able to pay dividends to holders of Class A Shares and no dividends will be paid on the Class A Shares as long as the dividends on the Preferred Shares are in arrears.

The amount of dividends in any particular calendar quarter will be determined by the Board of Directors of the Company on the advice of Mulvihill, as manager, having regard to the investment objectives of the Company, the net income and net realized capital gains of the Company during the calendar quarter and in the year to date, the net income and net realized capital gains of the Company anticipated in the balance of the year and dividends made in previous calendar quarters.

Dividends will be payable to registered holders of Class A Shares of record at 5:00 p.m. (Toronto time) on the Dividend Payment Date. All dividends will be paid by cheque and will be mailed to such registered shareholders at

their addresses listed in the register of shareholders to be maintained by the Company's registrar and transfer agent or paid in such other manner as may be agreed to by the Company See "Booked-Based System". Each holder of Class A Shares will be mailed annually, no later than March 31, information necessary to enable such shareholder to complete an income tax return with respect to amounts paid or payable by the Company in respect of the preceding calendar year. See "Canadian Federal Income Tax Considerations".

### ***Redemptions***

All Class A Shares outstanding on November 1, 2003 will be redeemed by the Company on such date. The redemption price payable by the Company for a Class A Share on that date will be equal to the greater of: (i) the NAV per Unit minus \$15.00; and (ii) nil.

Notice of redemption will be given to CDS Participants holding Class A Shares on behalf of the beneficial owners thereof at least 30 days prior to November 1, 2003.

### ***Retraction Privileges***

Class A Shares may be surrendered at any time for retraction to Montreal Trust Company of Canada, the Company's registrar and transfer agent, but will be retracted only on the monthly Valuation Date. Class A Shares surrendered for retraction by a shareholder at least five business days prior to the monthly Valuation Date will be retracted on such Valuation Date and the shareholder will receive payment on or before the fifth business day following such Valuation Date. If a shareholder makes such surrender after 5:00 p.m. (Toronto time) on the fifth business day immediately preceding a Valuation Date, the shares will be retracted on the Valuation Date in the following month and the shareholder will receive payment for the retracted shares on the Retraction Payment Date in respect of such Valuation Date.

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

Holders of Class A Shares also have an annual retraction right under which they may concurrently retract one Class A Share and one Preferred Share on the October Valuation Date, commencing on the October 1997 Valuation Date. The price paid by the Company for such a concurrent retraction will be equal to the NAV per Unit.

As disclosed below under "Details of the Offerings — Certain Provisions of the Class A Shares — Resale of Class A Shares Tendered for Retraction", where the holder of Class A Shares tendered for retraction has not withheld his consent thereto in the manner provided in the retraction notice delivered to CDS through a CDS Participant, the Company may, but is not obligated to, require the Recirculation Agent to use its best efforts to find purchasers for any Class A Shares tendered for retraction prior to the relevant Retraction Payment Date pursuant to the Recirculation Agreement. In such event, the amount to be paid to the holder of the Class A Shares on the Retraction Payment Date will be an amount equal to the proceeds of the sale of the Class A Shares less any applicable commission. Such amount will not be less than the monthly Class A Share Retraction Price described above. Holders of Class A Shares are free to withhold their consent to such treatment and to require the Company to retract their Class A Shares in accordance with their terms.

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

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

If any Class A Shares are tendered for retraction and are not resold in the manner described below under "Details of the Offerings — Certain Provisions of the Class A Shares — Resale of Class A Shares Tendered for Retraction", the Company has directed the Recirculation Agent to purchase for cancellation on behalf of the Company that number of Preferred Shares which equals the number of Class A Shares so retracted. Any Preferred Shares so purchased for cancellation will be purchased in the market.

#### ***Resale of Class A Shares Tendered for Retraction***

The Company has entered into the Recirculation Agreement with the Recirculation Agent whereby the Recirculation Agent has agreed to use its best efforts to find purchasers for any Class A Shares tendered for retraction prior to the relevant Retraction Payment Date, provided that the holder of the Class A Shares so tendered has not withheld consent thereto. The Company is not obligated to require the Recirculation Agent to seek such purchasers but may elect to do so. In the event that a purchaser for such Class A Shares is found in this manner, the amount to be paid to the holder of the Class A Shares on the relevant Retraction Payment Date will be an amount equal to the proceeds of the sale of the Class A Shares less any applicable commission. Such amount will not be less than the applicable Class A Share Retraction Price described above.

#### ***Priority***

The Class A Shares rank subsequent to the Preferred Shares but in priority to the Class B Shares with respect to the payment of dividends and the repayment of capital on the dissolution, liquidation or winding up of the Company.

#### ***Book-Based System***

Registration of interests in and transfers of the Preferred Shares and Class A Shares will be made only through a book-based system administered by CDS (the "book-entry only system") subject to applicable corporate law provisions. On or about October 30, 1996 (the "Closing Date"), but no later than December 6, 1996, the Company will deliver to CDS certificates evidencing the aggregate Preferred Shares and Class A Shares subscribed for under these offerings. Preferred Shares and Class A Shares must be purchased, transferred and surrendered for retraction or redemption through a CDS Participant. All rights of an owner of Preferred Shares or Class A Shares must be exercised through, and all payments or other property to which such owner is entitled will be made or delivered by, CDS or the CDS Participant through which the owner holds such Preferred Shares or Class A Shares. Upon purchase of any Preferred Shares or Class A Shares, the owner will receive only the customary confirmation. References in this prospectus to a holder of Preferred Shares or Class A Shares means, unless the context otherwise requires, the owner of the beneficial interest in such shares.

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

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

By causing a CDS Participant to deliver to CDS a notice of the owner's intention to retract shares, an owner shall be deemed to have irrevocably surrendered his shares for retraction and appointed such CDS Participant to act as his exclusive settlement agent with respect to the exercise of the retraction privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

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

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

#### **Suspension of Retractions or Redemptions**

The Company may suspend the retraction or redemption of Preferred Shares and Class A Shares or payment of retraction or redemption proceeds (i) during any period when normal trading is suspended on The Toronto Stock Exchange or The Montreal Exchange, or (ii) with the prior permission of the Ontario Securities Commission, for any period not exceeding 120 days during which the Company determines that conditions exist which render impractical the sale of assets of the Company or which impair the ability of the Company to determine the value of the assets of the Company. The suspension may apply to all requests for retraction received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All holders of Preferred Shares and Class A Shares making such requests shall be advised by the Company of the suspension and that the retraction will be effected at a price determined on the first Valuation Date following the termination of the suspension. All such shareholders shall have and shall be advised that they have the right to withdraw their requests for retraction. The suspension shall terminate in any event on the first day on which the condition giving rise to the suspension has ceased to exist provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Company, any declaration of suspension made by the Company shall be conclusive.

### **SHAREHOLDER MATTERS**

#### **Meetings of Shareholders**

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

#### **Acts Requiring Shareholder Approval**

The following matters require the approval of the holders of Preferred Shares and Class A Shares, each voting separately as a class, by a two-thirds majority vote (other than items (iii), (vi) and (vii) which require approval of a simple majority vote) at a meeting called and held for such purpose:

- (i) a change in the fundamental investment objectives and strategy of the Company;
- (ii) a change in the investment criteria of the Company as described under "Investments of the Company — Investment Criteria";
- (iii) the entering into by the Company of transactions involving derivatives other than the writing of covered call options, the purchase of call options or put options and the entering into of trades by the Company to close out positions in such permitted derivatives;
- (iv) any change in the basis of calculating fees or other expenses that are charged to the Company which could result in an increase in charges to the Company;
- (v) a change of the manager of the Company, other than a change resulting in an affiliate of such person assuming such position or, except as described herein, a change in the investment manager or manager of the Company, other than a change resulting in an affiliate of such person assuming such position;
- (vi) a decrease in the frequency of calculating the NAV;
- (vii) a change of the auditors of the Company;
- (viii) a termination of the Investment Management Agreement (except as described under "Investment Management Agreement"); and
- (ix) an amendment, modification or variation in the provisions or rights attaching to the Preferred Shares, Class A Shares or Class B Shares.

Each Preferred Share and each Class A Share will have one vote at such a meeting. Ten per cent of the outstanding Preferred Shares and Class A Shares, respectively, represented in person or by proxy at the meeting will constitute a quorum. If no quorum is present, the holders of Preferred Shares and Class A Shares then present will constitute a quorum at an adjourned meeting.

#### **Reporting to Shareholders**

The Company will deliver to each shareholder annual and semi-annual financial statements of the Company.

## CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Osler, Hoskin & Harcourt, Toronto, counsel to the Company and Blake, Cassels & Graydon, Toronto, counsel to the Agents, the following is a summary of the principal Canadian federal income tax considerations generally relevant to investors who, for purposes of the *Income Tax Act* (Canada) (the "Act"), are resident in Canada, deal at arm's length with the Company and hold their Preferred Shares and their Class A Shares as capital property, and under proposed amendments to the Act tabled on June 20, 1996 are not affiliated with the Company. This summary is based upon the facts set out in this Prospectus, the current provisions of the Act, the regulations thereunder, and counsel's understanding of the current administrative practices and assessing policies of Revenue Canada and relies as to certain factual matters on a certificate of an officer of the Company and Richardson Greenshields of Canada Limited. This summary is based on the assumption that the Class A Shares and the Preferred Shares will at all times be listed on a prescribed stock exchange in Canada (which currently includes The Toronto Stock Exchange). This summary is also based on the assumption that the Company was not established and will not be maintained primarily for the benefit of non-residents of Canada. This summary is based upon the assumption that the investment objectives and permitted investments will at all relevant times be as set out under the heading "Investments of the Company" and that the Company will at all times comply with such investment objectives and permitted investments. This summary also takes into account specific proposals to amend the Act announced prior to the date hereof by the Minister of Finance (the "Proposed Amendments"). No assurances can be given that the Proposed Amendments will become law as proposed or at all.

**This summary is not exhaustive of all possible federal income tax considerations and does not take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, other than the Proposed Amendments. This summary does not deal with foreign or provincial income tax considerations, which might differ from the federal considerations. This summary does not apply to shareholders that are "financial institutions" as defined in Section 142.2 of the Act.**

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

### **Tax Treatment of the Company**

The Company will qualify as a "mutual fund corporation" as defined in the Act. As a mutual fund corporation, the Company is entitled in certain circumstances to a refund of tax paid by it in respect of its net realized capital gains. Also, as a mutual fund corporation, the Company maintains a capital gains dividend account in respect of capital gains realized by the Company and from which it may elect to pay dividends ("capital gains dividends") which are treated as capital gains in the hands of the shareholders of the Company (see "Tax Status of Shareholders" below).

The Company is a "financial intermediary corporation" (as defined in the Act) and, as such, is not subject to tax under Part IV.1 of the Act on dividends received by the Company nor is it generally liable to tax under Part VI.1 on dividends paid by the Company on "taxable preferred shares" (as defined in the Act). As a mutual fund corporation (which is not an "investment corporation" as defined in the Act), the Company will generally be subject to a refundable tax of 33 $\frac{1}{3}$ % under Part IV of the Act on taxable dividends received during the year. This tax is fully refundable upon payment of sufficient dividends other than capital gains dividends ("Ordinary Dividends") by the Company.

Premiums received on call options written by the Company will constitute capital gains of the Company in the year received, and gains or losses realized upon dispositions of securities of the Company (whether upon the exercise of call options written by the Company or otherwise) will constitute capital gains or capital losses of the Company in the year realized unless the Company is considered to be trading or dealing in securities or otherwise carrying on a business of buying and selling securities or the Company has acquired the securities in a transaction or transactions considered to be an adventure in the nature of trade. The Company will purchase the Portfolio with the objective of earning dividends thereon over the life of the Company and will write covered call options with the objective of increasing the yield on the Portfolio beyond the dividends received on the Portfolio. In accordance with Revenue Canada's published administrative practice, transactions undertaken by the Company in respect of options and shares of the Banks will be treated and reported for purposes of the Act on capital account and designations by the Company with respect to its income and capital gains, as described below, will be made and reported to shareholders on this basis.

The policy of the Company is to pay quarterly dividends and, in addition, to pay a special year-end dividend to holders of Class A Shares where the Company has net taxable capital gains upon which it would otherwise be subject to tax (other than taxable capital gains realized on the writing of options that are outstanding at year end) or would not otherwise obtain a refund of refundable tax in respect of dividend income. While the principal sources of income of the Company are expected to be dividends from taxable Canadian corporations and taxable capital gains, to the extent that the Company earns income from other sources, including interest income upon interim investment of its reserves, the Company will be subject to income tax on such income and no refund will be available in respect thereof.

Given the investment and dividend policy of the Company and taking into account expenses, the Company does not expect to bear any appreciable non-refundable income tax.

### **Tax Treatment of Shareholders**

Shareholders of the Company must include in income Ordinary Dividends paid by the Company. For individual shareholders, Ordinary Dividends will be subject to the usual gross-up and dividend tax credit rules with respect to taxable dividends paid by taxable Canadian corporations under the Act. Ordinary Dividends received by a corporation other than a "specified financial institution" (as defined in the Act) will also normally be deductible in computing its taxable income.

In the case of a holder that is a specified financial institution, Ordinary Dividends received on a particular class of shares will be deductible in computing its taxable income only if either:

- (a) the specified financial institution did not acquire the shares in the ordinary course of its business, or
- (b) at the time of receipt of the dividend by the specified financial institution, dividends are received in respect of not more than 10% of the issued and outstanding shares of that class by
  - i) the specified financial institution, or
  - ii) the specified financial institution and persons with whom it does not deal at arm's length (within the meaning of the Act).

For these purposes, a beneficiary of a trust will be deemed to receive the amount of any dividend received by the trust and designated to that beneficiary, effective at the time the dividend was received by the trust, and a member of a partnership will be considered to have received that partner's share of a dividend received by the partnership, effective at the time the dividend was received by the partnership.

Ordinary Dividends on Preferred Shares held by Canadian corporations will generally be subject to a 10% tax under Part IV.1 of the Act when received by a corporation (other than a "private corporation" or a "financial intermediary corporation", as defined in the Act) to the extent that such dividends are deductible in computing the corporation's taxable income.

A shareholder which is a private corporation or any other corporation controlled directly or indirectly by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) may be liable to pay a 33 $\frac{1}{3}$ % refundable tax under Part IV of the Act on Ordinary Dividends received on the shares to the extent that such dividends are deductible in computing the corporation's taxable income. Where Part IV.1 tax also applies to a dividend received by a particular corporation on the dividend, the rate of Part IV tax payable by such corporation is reduced to 23 $\frac{1}{3}$ %.

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

The policy of the Company is to pay quarterly dividends and, in addition, to pay a special year-end dividend to holders of Class A Shares where the Company has net taxable capital gains upon which it would otherwise be subject to tax (other than taxable capital gains in respect of options that are outstanding at year end) or would not otherwise obtain a refund of refundable tax in respect of dividend income. Therefore, a person acquiring shares may become taxable on income and capital gains that accrued before such person acquired shares and on realized capital gains that have not been distributed before such time

Upon the redemption, retraction or other disposition of a share, a capital gain (or a capital loss) will be realized to the extent that the proceeds of disposition of the share exceed (or are less than) the aggregate of the adjusted cost base of the share and any reasonable costs of disposition.

The adjusted cost base of each share will generally be the weighted average of the cost of the shares of that class acquired by a holder at a particular time and the aggregate adjusted cost base of any shares of that class already held.

Three-quarters of a capital gain (the taxable capital gain) is included in computing income and three-quarters of a capital loss (the allowable capital loss) is deductible against taxable capital gains.

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

Shares will qualify as "Canadian securities" for purposes of the election of guaranteed capital gains treatment provided for under certain circumstances under the Act. Investors considering making such an election should consult their tax advisors.

### **ELIGIBILITY FOR INVESTMENT**

In the opinion of Osler, Hoskin & Harcourt, Toronto, and Blake Cassels & Graydon, Toronto, the Class A Shares and the Preferred Shares, if, as and when listed on a prescribed stock exchange, will be qualified investments under the Act for trusts governed by registered retirement savings plans, registered retirement income funds or deferred profit sharing plans. Provided that the Company does not invest in foreign property in excess of permitted limits, the Preferred Shares and the Class A Shares will not be foreign property for purposes of the Act. The investment criteria of the Company preclude the Company from investing in foreign property in excess of such permitted limits.

### **USE OF PROCEEDS**

The net proceeds from the issue of the Preferred Shares and the Class A Shares offered hereby, assuming the maximum offering (after payment of the Agents' fee and expenses of the issue) are estimated to be \$95,670,000 and will be used to purchase the Portfolio within an initial 30 day period following closing. See "Portfolio Investments".

### **PLAN OF DISTRIBUTION**

Pursuant to an agreement dated as of October 17, 1996 (the "Agency Agreement") between Mulvihill, MCM, the Company and Richardson Greenshields of Canada Limited, RBC Dominion Securities Inc., CIBC Wood Gundy Securities Inc., Nesbitt Burns Inc., ScotiaMcLeod Inc., Midland Walwyn Capital Inc., TD Securities Inc. and Trilon Securities Corporation (the "Agents"), the Agents have agreed to offer the Preferred Shares and the Class A Shares for sale, as agents of the Company, on a best efforts basis, if, as and when issued by the Company. The Agents will receive a fee equal to \$0.45 for each Preferred Share sold and \$0.50 for each Class A Share sold and will be reimbursed for 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 the shares offered hereby, the Agents will not be obligated to purchase Preferred Shares or Class A Shares which are not sold.

Proceeds from subscriptions will be held by Montreal Trust Company of Canada in trust in a segregated account until the minimum amount of the offerings have been attained. In the event that the minimum offerings are not attained and the closing does not occur, subscription proceeds received from prospective purchasers will be returned promptly to such purchasers without interest or deduction. An equal number of Preferred Shares and Class A Shares will be issued at closing. 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. Subscriptions for Preferred Shares and Class A Shares will be received subject to rejection or allotment in whole or in part. The right is reserved to close the subscription books at any time without notice. Closing is expected to occur on October 30, 1996, but no later than December 6, 1996.

Pursuant to policy statements of certain securities regulators, the Agents may not, throughout the period of distribution, bid for or purchase Preferred Shares or Class A Shares. 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, the shares. 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 and 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 these offerings, the Agents may over-allot or effect transactions which stabilize or maintain the market price of the Preferred Shares and Class A Shares at levels other than those which might otherwise prevail on the open market. In such event, an equal number of Preferred Shares and Class A Shares will be maintained. Such transactions, if commenced, may be discontinued at any time.

### CAPITALIZATION

The capitalization of the Company at October 17, 1996 and at such date as adjusted to give effect to the issue and sale of the Preferred Shares and the Class A Shares offered hereby, is set forth in the table below:

	<u>Authorized</u>	<u>Outstanding as at October 17, 1996</u>	<u>To be outstanding as at October 17, 1996 after giving effect to these issues (1)</u> (unaudited)
Share Capital			
Preferred Shares .....	unlimited	nil	\$60,000,000 (4,000,000 shs.)
Class A Shares .....	unlimited	nil	40,000,000 (4,000,000 shs.)
Class B Shares .....	1,000	\$1,000 (1,000 shs.)	\$ 1,000 (1,000 shs.)
Issue Costs .....		<u>nil</u>	<u>\$(4,330,000)</u>
Total Capitalization .....		<u>\$1,000</u>	<u>\$95,671,000</u>

Note

(1) Assumes the maximum amount of the offerings.

### PRINCIPAL SHAREHOLDER

All of the issued and outstanding Class B Shares of the Company are owned by MCM. MCM is controlled by John P. Mulvihill. The Class B Shares will be held in escrow by The Royal Trust Company pursuant to an agreement dated October 17, 1996 (the "Escrow Agreement") between MCM, The Royal Trust Company and the Company and will not be disposed of or dealt with in any manner until all the Preferred Shares and Class A Shares have been retracted or redeemed, without the express consent, order or direction in writing of the Ontario Securities Commission.

### FEES AND EXPENSES

#### Initial Expenses

The expenses of these offerings (including the costs of creating and organizing the Company, the costs of printing and preparing this prospectus and certificates representing the Preferred Shares and Class A Shares, legal expenses of the Company, marketing expenses and legal and other out of pocket expenses incurred by the Agents and certain other expenses) will be paid by the Company out of the gross proceeds of these offerings. In addition, the Agents' fee will be paid to the Agents from the gross proceeds as described under "Plan of Distribution"

#### Fees and Other Expenses

Pursuant to the terms of the Investment Management Agreement, MCM is entitled to a fee at an annual rate of 0.80% of the NAV of the Company. Pursuant to the terms of the Management Agreement, Mulvihill is entitled to a fee at an annual rate of 0.10% of the NAV of the Company. Fees payable to MCM and Mulvihill will be calculated and payable monthly based on the NAV as at the Valuation Date of each month.

The Company will pay for all expenses incurred in connection with the operation and administration of the Company. It is expected that these expenses will include, without limitation: (a) mailing and printing expenses for periodic reports to shareholders; (b) fees payable to the Custodian for acting as custodian of the assets of the Company and performing certain administrative services under the Custodian Agreement; (c) fees payable to Montreal Trust Company of Canada, as registrar and transfer agent with respect to the Preferred Shares and the Class A Shares; (d) fees payable to the independent directors of the Company; (e) any additional fees payable to Mulvihill for performance of extraordinary services on behalf of the Company; (f) fees payable to the auditors and legal advisors of the Company; (g) regulatory filing and stock exchange fees; and (h) expenditures incurred upon the dissolution of the Company. Such expenses will also include expenses of any action, suit or other proceedings in which or in relation to which Mulvihill or MCM is entitled to indemnity by the Company. See "Management of the Company". The Company will also be responsible for all commissions and other costs of Portfolio transactions. All such expenses will be subject to an independent audit and report thereon to the Company.

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

MCM, Mulvihill and the Custodian will receive the fees described under "Fees and Expenses" for their respective services to the Company and will be reimbursed by the Company for all expenses incurred in connection with the operation and administration of the Company.

In accordance with the requirements of the provincial securities regulatory authorities in connection with these offerings, MCM has undertaken to file insider trading reports, as if the Company was not a mutual fund, in accordance with applicable provincial securities legislation, for itself and to cause its subsidiaries to file insider trading reports, as if the Company was not a mutual fund, in accordance with applicable provincial securities legislation in respect of trades made by them in shares in the capital of the Company.

The Company and its senior officers and directors have also undertaken to file insider trading reports, as if the Company was not a mutual fund, in accordance with applicable provincial securities legislation, for themselves. The Company has undertaken that it will not elect or appoint any person in the future as a senior officer or director unless such person undertakes to file insider trading reports, as if the Company was not a mutual fund, in accordance with applicable provincial securities legislation and to deliver to each applicable provincial securities regulatory authority an undertaking to file insider trading reports in accordance with applicable provincial securities legislation. The foregoing undertakings shall remain in full force until such time as (i) in the case of the undertaking of MCM, MCM ceases to hold voting shares of the Company, (ii) in the case of the undertakings of a director or senior officer of the Company, such person ceases to be a director or officer of the Company, or (iii) all of the Preferred Shares and Class A Shares have been redeemed or retracted.

### **MATERIAL CONTRACTS**

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

- (a) the Management Agreement described under "The Manager";
- (b) the Investment Management Agreement described under "Management of the Company — Investment Management Agreement";
- (c) the Agency Agreement described under "Plan of Distribution";
- (d) the Recirculation Agreement described under "Details of the Offerings.";
- (e) the Escrow Agreement described under "Principal Shareholder"; and
- (f) the Custodian Agreement described under "Custodian".

Copies of the foregoing agreements may be inspected during business hours at the principal office of the Company during the course of distribution of the Preferred Shares and Class A Shares offered hereby.

### **RISK FACTORS**

The following are certain considerations relating to an investment in Preferred Shares or Class A Shares which prospective investors should consider before purchasing such shares:

## **Operating History**

The Company is a newly organized investment company with no previous operating history and there is currently no public market for the Preferred Shares or Class A Shares.

## **Interest Rate Fluctuations**

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

## **Performance of the Banks and Other Conditions**

The value of the Company's Portfolio will be influenced by factors which are not within the control of the Company, including the financial performance of the Banks, their dividend payment policies and financial market and economic conditions generally.

## **Use of Options and other Derivative Instruments**

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

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

## **Net Asset Value and Distributions**

The NAV of the Company and the funds available for distribution to holders of Preferred Shares and Class A Shares will vary according, among other things, to the value of the common shares of the Banks included in the Portfolio, the dividends paid thereon and the level of option premiums received. Although many investors and financial market professionals price call options based on the Black-Scholes Model, in practice actual option premiums are determined in the marketplace. There is no assurance that the Company will be able to achieve its investment objectives of paying quarterly dividends.

## **Class A Shares**

Any capital appreciation in the value of the Portfolio will be for the benefit of the holders of Class A Shares. However, any decrease in the value of the Portfolio or the dividends paid on the common shares of the Banks held in the Portfolio will effectively first be for the account of holders of Class A Shares. The Class A Shares will have no value on November 1, 2003 if the NAV per Unit on that date is less than or equal to \$15.00.

## **Reliance on the Investment Manager**

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

## **Treatment of Proceeds of Disposition and Option Premiums**

In determining its income for tax purposes, the Company will treat gains and losses realized on the disposition of securities in the Portfolio, option premiums received on the writing of covered call options and any losses sustained on closing out options as capital gains and capital losses in accordance with Revenue Canada's published

administrative practice. Revenue Canada's practice is not to grant advance income tax rulings on the characterization of items as capital or income and no advance income tax ruling has been applied for or received from Revenue Canada.

If, contrary to Revenue Canada's published administrative practice, some or all of the transactions undertaken by the Company in respect of options and shares of the Banks were treated on income rather than capital account, after-tax returns to holders of Class A Shares (and, potentially, holders of Preferred Shares to the extent dividends and capital gains on the Portfolio are not sufficient to meet the Preferred Share dividend) could be reduced and the Company may be subject to non-refundable income tax in respect of income from such transactions and the Company may be subject to penalty taxes in respect of excessive capital gains dividends elections.

#### **LEGAL MATTERS**

The matters referred to under "Eligibility for Investment" and "Canadian Federal Income Tax Considerations" and certain other legal matters relating to the securities offered hereby will be passed upon by Osler, Hoskin & Harcourt, Toronto, on behalf of the Company, and Blake Cassels & Graydon, Toronto, on behalf of the Agents.

#### **CUSTODIAN**

Pursuant to an agreement (the "Custodian Agreement") dated October 17, 1996 with the Company, The Royal Trust Company (the "Custodian") is the custodian of the assets of the Company and is also responsible for certain aspects of the day-to-day administration of the Company, including executing instruments on behalf of the Company, processing redemptions, calculating NAV, net income and net realized capital gains of the Company and maintaining the books and records of the Company.

The address of the Custodian is 77 King Street West, 11th Floor, Royal Trust Tower, Toronto-Dominion Centre, Toronto, Ontario M5W 1P9.

The Custodian is entitled to receive fees from the Company as described under "Fees and Expenses" and to be reimbursed for all expenses and liabilities which are properly incurred by the Custodian in connection with the activities of the Company.

#### **PROMOTER**

MCM has taken the initiative in organizing the Company and accordingly may be considered to be a "promoter" of the Company within the meaning of the securities legislation of certain provinces of Canada. MCM will receive fees from the Company and will be entitled to reimbursement of expenses incurred in relation to the Company as described under "Fees and Expenses".

#### **AUDITORS**

The auditors of the Company are Deloitte & Touche, Toronto, Ontario.

#### **REGISTRAR AND TRANSFER AGENT**

Pursuant to a Registrar and Transfer Agency Agreement to be signed on or prior to closing, Montreal Trust Company of Canada, at its principal offices in Toronto and Montreal will be appointed the registrar and transfer agent for the Shares.

#### **PURCHASER'S STATUTORY RIGHTS**

Securities legislation in several of the provinces of Canada provides a purchaser with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

## AUDITORS' REPORT

To the Directors of  
PREMIUM INCOME CORPORATION:

We have audited the statement of financial position of Premium Income Corporation as at October 17, 1996. This statement of financial position is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial position based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 statement of financial position presents fairly, in all material respects, the financial position of the Company as at October 17, 1996 in accordance with generally accepted accounting principles

Toronto, Canada  
October 17, 1996

*Deloitte + Touche*

Chartered Accountants

## COMPILATION REPORT

To the Directors of  
PREMIUM INCOME CORPORATION:

We have reviewed, as to compilation only, the accompanying pro forma statement of financial position of Premium Income Corporation as at October 17, 1996, which has been prepared for inclusion in the prospectus relating to the issue of Class A Shares and Preferred Shares of the Company. In our opinion, the pro forma statement of financial position has been properly compiled to give effect to the transactions and assumptions described in the notes thereto.

Toronto, Canada  
October 17, 1996

*Deloitte + Touche*

Chartered Accountants

# PREMIUM INCOME CORPORATION

## Statement of Financial Position

October 17, 1996

	<u>Actual</u>	<u>Proforma (Unaudited)</u>
<b>ASSETS</b>		
Cash .....	\$1,000	\$ —
Investment in portfolio securities .....	—	95,671,000
<b>Total</b> .....	<u>\$1,000</u>	<u>\$95,671,000</u>
<b>SHAREHOLDERS' EQUITY</b>		
Shareholders' Equity:		
Preferred shares .....	\$ —	\$60,000,000
Class A shares .....	—	40,000,000
Class B shares .....	1,000	1,000
Issue Costs .....	—	(4,330,000)
<b>Total</b> .....	<u>\$1,000</u>	<u>\$95,671,000</u>

Approved by the Board



DAVID N. MIDDLETON  
Director



JOHN P. MULVIHILL  
Director

### Notes

#### 1. Organization and Share Capital

Premium Income Corporation (the "Company") was incorporated under the laws of the Province of Ontario by Articles of Incorporation dated August 27, 1996.

The Company is authorized to issue an unlimited number of Class A Shares, 1,000 Class B Shares and an unlimited number of Preferred Shares. On August 27, 1996, the Company issued 1,000 Class B Shares to Mulvihill Capital Management Inc. ("MCM"), the Company's investment manager, for cash consideration of \$1,000.

#### 2. Pro Forma Statement of Financial Position

The pro forma statement of financial position gives effect, as at October 17, 1996, to the following transactions:

- (a) the issue of 4,000,000 Class A Shares for total gross proceeds of \$40,000,000 and 4,000,000 Preferred Shares for total gross proceeds of \$60,000,000.
- (b) The payment of estimated costs relating to these offerings of \$4,330,000, which amount is comprised of the fee payable to the agents in these offerings of \$3,800,000 and issue costs of \$530,000.
- (c) The completion of the purchase of an investment portfolio comprising investments in major Canadian banks consisting of: Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada and The Toronto Dominion Bank

#### 3. Agency and Custodian Agreements

The Company has engaged Richardson Greenshields of Canada Limited, RBC Dominion Securities Inc., CIBC Wood Gundy Securities Inc., Nesbitt Burns Inc., ScotiaMcLeod Inc., Midland Walwyn Capital Inc., TD Securities Inc. and Trilon Securities Corporation to offer for sale to the public pursuant to a prospectus dated October 17, 1996, the shares described in Note 2.

The Company has retained The Royal Trust Company under a Custodian Agreement dated October 17, 1996, to act as custodian of the assets of the Company and is also responsible for certain aspects of the Company's day-to-day operations. In consideration for the services provided by The Royal Trust Company, the Company will pay a monthly fee as defined in the Custodian Agreement.

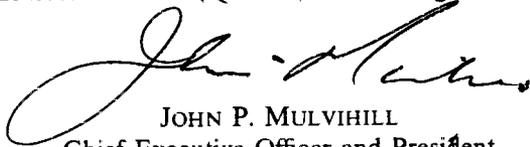
#### 4. Management and Investment Management Agreements

The Company has retained Mulvihill Fund Services Inc. ("Mulvihill") under a Management Agreement dated October 17, 1996 and has retained MCM under an Investment Management Agreement dated October 17, 1996. Pursuant to such agreements, Mulvihill and MCM are entitled to fees at the annual rates of 0.10% and 0.80%, respectively, of the Net Asset Value of the Company. Such fees are calculated and payable monthly.

**CERTIFICATE OF THE COMPANY AND THE PROMOTER**

Dated: October 17, 1996

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 7 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of *The Securities Act*, 1988 (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Section 63 of the *Securities Act* (Nova Scotia), by Section 13 of the *Securities Act* (New Brunswick) and the respective regulations thereunder, by Part XIV of *The Securities Act* (Newfoundland) and by Part II of the *Securities Act* (Prince Edward Island). This prospectus does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed within the meaning of the *Securities Act* (Quebec) and the regulations thereunder.



JOHN P. MULVIHILL  
Chief Executive Officer and President



DAVID N. MIDDLETON  
Chief Financial Officer

On behalf of the Board of Directors



ROBERT W. KORTHALS  
Director



C. EDWARD MEDLAND  
Director

MULVIHILL CAPITAL MANAGEMENT INC.  
(as Promoter)

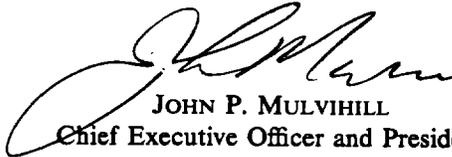


JOHN P. MULVIHILL

**CERTIFICATE OF THE MANAGER**

Dated: October 17 , 1996

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 7 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Section 63 of the *Securities Act* (Nova Scotia), by Section 13 of the *Securities Act* (New Brunswick) and the respective regulations thereunder, by Part XIV of *The Securities Act* (Newfoundland) and by Part II of the *Securities Act* (Prince Edward Island). This prospectus does not contain any misrepresentations likely to affect the value or the market price of the securities to be distributed within the meaning of the *Securities Act* (Quebec) and the regulations thereunder.

  
JOHN P. MULVIHILL  
Chief Executive Officer and President

  
DAVID N. MIDDLETON  
Chief Financial Officer

On behalf of the Board of Directors

  
JOHN P. MULVIHILL  
Director

  
DAVID N. MIDDLETON  
Director

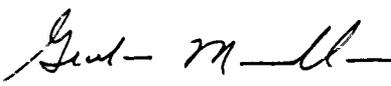
  
JOHN H. SIMPSON  
Director

## CERTIFICATE OF THE AGENTS

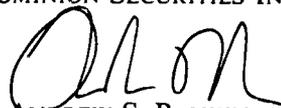
Dated: October 17, 1996

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 7 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Section 64 of the *Securities Act* (Nova Scotia), by Section 13 of the *Securities Act* (New Brunswick) and the respective regulations thereunder, by Part XIV of *The Securities Act* (Newfoundland) and by Part II of the *Securities Act* (Prince Edward Island). 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 within the meaning of the *Securities Act* (Quebec) and the regulations thereunder.

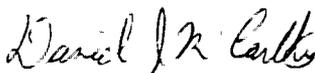
RICHARDSON GREENSHIELDS OF CANADA LIMITED

  
By: GRAHAM C. MACMILLAN

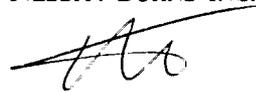
RBC DOMINION SECURITIES INC.

  
By: ANDREW S. RANKIN

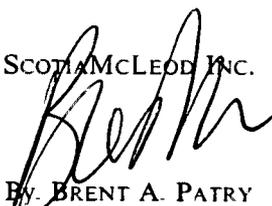
CIBC WOOD GUNDY SECURITIES INC.

  
By: DANIEL J. MCCARTHY

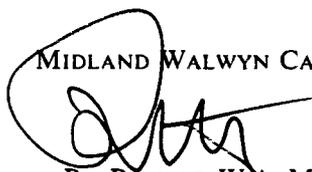
NESBITT BURNS INC.

  
By: KENNETH G. SCOTT

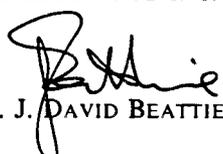
SCOTIAMCLEOD INC.

  
By: BRENT A. PATRY

MIDLAND WALWYN CAPITAL INC.

  
By: RONALD W.A. MITCHELL

TD SECURITIES INC.

  
By: J. DAVID BEATTIE

TRILON SECURITIES CORPORATION

  
By: TREVOR D. KERR

The following includes the names of every person having an interest either directly or indirectly to the extent of not less than 5% in the capital of:

RICHARDSON GREENSHIELDS OF CANADA LIMITED: wholly-owned by Richardson Greenshields Limited;

RBC DOMINION SECURITIES INC.: a wholly-owned subsidiary of RBC Dominion Securities Limited, a majority-owned subsidiary of a Canadian chartered bank;

CIBC WOOD GUNDY SECURITIES INC.: a wholly-owned subsidiary of The CIBC Wood Gundy Corporation, a majority-owned subsidiary of a Canadian chartered bank;

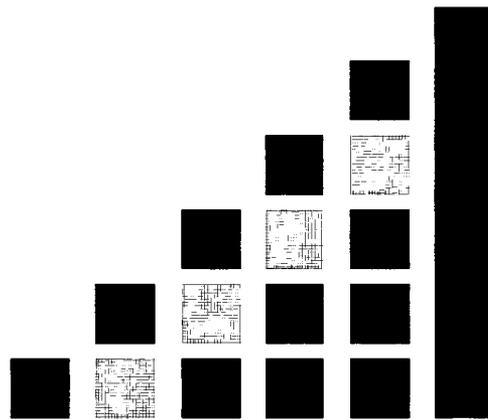
NESBITT BURNS INC.: The Nesbitt Burns Corporation Limited, a majority-owned subsidiary of a Canadian chartered bank;

SCOTIAMCLEOD INC.: a wholly-owned subsidiary of a Canadian chartered bank;

MIDLAND WALWYN CAPITAL INC.: a wholly-owned subsidiary of Midland Walwyn Inc.;

TD SECURITIES INC.: a wholly-owned subsidiary of a Canadian chartered bank; and

TRILON SECURITIES CORPORATION: a wholly-owned subsidiary of Trilon Financial Corporation.



# PREMIUM

INCOME CORPORATION

**BOWNE**

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