

*This Amended and Restated Offering Memorandum (the "Offering Memorandum") constitutes an offering of the securities described herein only in those jurisdictions where they may be lawfully offered for sale and is not, and under no circumstances is to be construed as, a public offering of such securities.*

***No securities commission or similar regulatory authority in Canada has in any way passed upon the merits of the securities offered hereunder nor has it reviewed this offering memorandum and any representation to the contrary is an offence.***

*There is no market for these securities, so that it may be difficult or even impossible for the holders to sell them. They may sell them only pursuant to an exemption prescribed by securities legislation of their particular province or with a prospectus or with the granting of an exemption. The securities, however, may be redeemed in accordance with the provisions of this offering memorandum.*

*No person has been authorized to give any information or to make any representations about the Classes not contained in this Offering Memorandum. Any such information or representation which is given or received must not be relied upon by any investor.*

## **MANAGER SELECT PROGRAM**

Offering Shares of the following Classes of

### **CFG CUSTOM PORTFOLIO CORPORATION:**

<b>Class A-5</b>	<b>Avenue Bond</b>
<b>Class B-5</b>	<b>Barrantagh Fixed Income</b>
<b>Class C-5</b>	<b>Leon Frazer Canadian Dividend</b>
<b>Class D-5</b>	<b>Rondeau Value Equity</b>
<b>Class E-5</b>	<b>Avenue Total Return Equity</b>
<b>Class F-5</b>	<b>Barrantagh Total Equity</b>

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Offering Memorandum

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May 5, 2011

*CFG Custom Portfolio Corporation is a "related" and/or "connected" issuer of RN Croft Financial Group Inc. under applicable securities laws. See "MANAGEMENT OF THE CLASSES – Conflict of Interest"*

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## SUMMARY OF THE MANAGER SELECT PROGRAM

Prospective investors are encouraged to consult their own professional advisors as to the tax and legal consequences of investing in the Corporation. The following is a summary only and is qualified by the more detailed information contained in this offering memorandum.

### MANAGER SELECT PROGRAM

The Manager Select Program, offered by R N Croft Financial Group Inc. ("Croft Financial Group"), is a series of share classes that enable investors to invest in specific portfolios offered by third party investment managers. The Manager Select Program is intended to provide investors access to specific actively managed investment strategies that would form part of a broader portfolio.

Croft Financial Group determines an appropriate portfolio mix, based on information about the investor provided in the investor's Managed Investment Account Agreement (MIAA) and through ongoing client information gathering processes. The investor's portfolio asset mix as set out in the MIAA is confirmed with the investor by a registered individual at Croft Financial Group to make certain that the asset mix, as defined by the MIAA, is both suitable and appropriate for the investor's long term objectives and risk tolerances.

Having ascertained the appropriateness of the investor's asset mix and confirmed that the assigned mandate (i.e. Growth, Balanced, Conservative or Income) is appropriate for the investor, Croft Financial Group will set out to purchase on behalf of the investor, securities that correspond to the investor's mandate. If the investor chooses, the Manager Select program can form part or all of the Client's portfolio mandate. However, investors would not typically access one specific manager and / or one strategy for their entire portfolio.

The Corporation has retained the following portfolio advisors to manage the investments within specific Classes of the Corporation;

Class A-5	Avenue Bond	Avenue Investment Management Inc.
Class B-5	Barrantagh Fixed Income	Barrantagh Investment Management Inc.
Class C-5	Leon Frazer Canadian Dividend	Leon Frazer & Associates Inc.
Class D-5	Rondeau Value Equity	Rondeau Capital Inc.
Class E-5	Avenue Total Return Equity	Avenue Investment Management Inc.
Class F-5	Barrantagh Total Equity	Barrantagh Investment Management Inc.

Croft Financial Group has contracted Weigh House Investor Services to assess the return / risk characteristics of each Class and to provide ongoing performance evaluations that reflect each managers specific objectives against an agreed upon benchmark.

## **THE CORPORATION**

The Corporation is an open-end mutual fund corporation incorporated on August 18, 2006 under the laws of Canada. Each Class of the Corporation represents a separate segregated investment fund with its own investment objective. An investment in a Class is represented by Shares of that Class.

The Corporation is authorized to issue an unlimited number of series in each Class of Shares. The Classes and series of Shares offered hereunder are:

Class A-5	Avenue Bond
Class B-5	Barrantagh Fixed Income
Class C-5	Leon Frazer Canadian Dividend
Class D-5	Rondeau Value Equity
Class E-5	Avenue Total Return Equity
Class F-5	Barrantagh Total Equity

## **THE OFFERING**

Shares of the Corporation are offered on a continuous basis at a price equal to the applicable Net Asset Value per Share at the time of purchase to eligible investors resident in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, and Quebec (the "Offering Jurisdictions") pursuant to exemptions from the prospectus requirements of the Offering Jurisdictions. The initial Net Asset Value of a Share will be \$10.00. Thereafter, Shares will be offered at the applicable Net Asset Value per Share.

## **ELIGIBLE INVESTORS**

In order to be eligible to purchase Shares, investors must enter into a MIAA with Croft Financial Group and, in the case of residents of Ontario, be either an accredited investor or qualify under the minimum amount investment exemption.

## **INVESTMENT OBJECTIVES OF THE CLASSES**

### ***Class A-5 Avenue Bond***

This Class seeks to provide investors with steady income, limited potential for capital gain and low risk of capital loss.

### ***Class B-5 Barrantagh Fixed Income***

The objectives of the portfolio are to generate a steady flow of income while preserving the capital of the portfolio over the longer term.

The level of risk (volatility) in the portfolio is over the long term, generally below the risk associated with equity markets. Generation of a secure, sustainable level of income is the primary consideration.

***Class C-5 Leon Frazer Canadian Dividend***

This Class seeks to provide investors capital growth supported by income.

***Class D-5 Rondeau Value Equity***

This Class seeks to provide long-term capital growth primarily through investment in a diversified portfolio of Canadian Equity securities.

***Class E-5 Avenue Total Return Equity***

This Class seeks to provide capital growth and cash flow through investments in a diversified portfolio of Canadian, US and international stocks, warrants, bonds and cash.

***Class F-5 Barrantagh Total Equity***

The objective of this portfolio is to earn a total rate of return higher than that of the stock market as a whole over the long term. The level of risk (volatility) in the portfolio is greater than that of equity markets in general.

**INVESTMENT STRATEGIES OF THE CLASSES**

***Class A-5 Avenue Bond***

Securities held in this Class will consist mostly of fixed income securities and cash with some exposure to income trusts, convertible stocks, preferred shares, bonds and high yield bonds. Fixed income is defined as government bonds, corporate bonds and money market instruments, such as treasury bills, banker's acceptances and commercial paper. Opportunities to participate in private placements and to invest in other types of instruments may be taken up if the agreed upon asset mix for the Class's portfolio is maintained and, in the sole discretion of the investment adviser, the liquidity of the Class's portfolio is not substantially affected.

Representative Asset Mix for this Class:

<b>Income Trusts</b>		
<b>Fixed Income</b>	<b>High Yield / Convertibles</b>	<b>Cash</b>
60% - 100%	0% - 20%	0% - 20%

***Class B-5 Barrantagh Fixed Income***

The objectives of the portfolio are to generate a steady flow of income while preserving the capital of the portfolio over the longer term. Generation of a secure, sustainable level of income is the primary consideration.

A neutral position will be defined as 90% bonds, 10% cash equivalents. The percentage mix between these components (exposure) will be altered periodically to enhance income and/or investment results or to mitigate risk depending on market conditions.

The bond component will consist of federal, provincial and municipal government bonds and investment grade (rated BBB (low) and higher) corporate fixed-income securities. The income earned by the portfolio will consist of interest income. Capital gains realized in the investment process will be reinvested to create additional future income.

Sectoral exposure in the corporate bond market, and in the other components, will be monitored and in general investment in any one sector would be limited to 15% of total market value of the portfolio.

The holdings in the portfolio will be broadly diversified. The exposure to any one security will be rebalanced as deemed appropriate so that the holding of a security does not constitute an unreasonably high proportion of the total market value of the portfolio with the exception of government bond holdings.

#### ***Class C-5 Leon Frazer Canadian Dividend***

This Class will typically invest in 25 to 35 securities that include North American stocks, income trusts, convertible preferred shares and debentures, warrants and instalment receipts.

The Class seeks out companies with strong earnings and cash flow history as well as a management team that is committed to paying out earnings in the form of dividends. This dividend income provides current return and capital stability.

Prospective companies are evaluated using traditional qualitative measures like quality of management and industry leadership, as well as quantitative measures like dividend growth and yield, earnings growth, earnings stability and cash flow growth. The primary philosophy is that capital growth is supported by income (dividend) growth.

#### ***Class D-5 Rondeau Value Equity***

Rondeau Capital Inc. primarily utilizes a "bottom up" stock picking portfolio construction and management process that focuses on fundamental analysis and valuation of individual companies. Analysis of fundamental operating metrics, valuation and management strength is undertaken to determine appropriateness of an investment. Careful attention is paid to expected risk adjusted returns of any potential investment.

The Class may invest up to 50% of the cost of its net assets in foreign securities.

The Class's portfolio turnover is expected to be moderate which may result in increased transaction expenses and the realization of capital gains.

The Class's investment in equity securities is actively managed and will range between 0% and 100% of the Class's assets, as determined by Rondeau Capital Inc. depending on its assessment of economic and market factors.

### ***Class E-5 Avenue Total Return Equity***

Securities held in this Class will be primarily a mixture of publicly traded common or preferred shares, convertible debentures or bonds, government bonds, corporate bonds (including high yield bonds), warrants, rights or cash. These securities may be domestic or international, and held in their respective currencies or hedged back to Canadian dollars. Opportunities to participate in private placements and to invest in other types of instruments may be taken up if the agreed upon asset mix for the Class's portfolio is maintained and, in the sole discretion of the investment adviser, the liquidity of the Class's portfolio is not substantially affected. The Class's primary characteristics are to provide the investor with the potential for long term capital gain.

Representative Asset Mix for this Class:

<b>Equities</b>	<b>Bonds</b>	<b>Cash</b>
40% - 100%	0% - 60%	0% - 20%

### ***Class F-5 Barrantagh Total Equity***

The Class will be broadly diversified with an asset allocation range of 60% to 100% for equities, 0% to 40% for cash and cash equivalents. The asset allocation will be adjusted as perceived economic conditions and investment opportunities dictate.

The equity component will consist of large capitalization Canadian and International stocks in general with sound long term prospects and leading industry positions. Exposure to small capitalization stocks and special situations will be permitted, but limited to a small portion of the portfolio

Exposure to the Global equity market is considered important to achieve exposure to global growth trends and to sectors not available through companies listed on Canadian exchanges.

Exposure to European, Asian and Latin American markets will be achieved through investment in North American companies with international exposure and directly through investment in foreign companies.

The holdings in the Class will be broadly diversified. The exposure to any one security will be rebalanced as deemed appropriate so that the holding of a security does not constitute an unreasonably high proportion of the total market value of the portfolio.

Derivatives and/or options will not be used.

### **INVESTMENT RESTRICTIONS:**

Classes have no geographic, industry or sector restrictions.

When investing in equity securities (also called stocks or shares) the value of Shares and any income and gains associated with them can fluctuate significantly and may

be quite volatile. Subscribers should be aware that they may not achieve their anticipated returns and may, in fact, suffer significant loss. The value of the Classes will be affected by changes in the market price of those securities. The securities business is speculative, prices are volatile and market movements are difficult to predict. The price of a stock is affected by individual company developments and by general economic and financial conditions in those countries where the issuer of the stock is located or where the stock is listed for trading.

## **LEVERAGE**

Each Class may utilize leverage to a maximum of 10% in the aggregate (at the time of incurring the leverage) of the Gross Asset Value of each Class. All Classes may borrow or purchase securities on margin.

## **RISK FACTORS**

There are risks associated with an investment in the Classes as a result of, among other considerations, the proposed nature and undertakings of the Classes. See "Risk Factors".

## **R N CROFT FINANCIAL GROUP**

Croft Financial Group is responsible for the management and day-to-day administration of the Classes. Croft Financial Group was formed under the laws of Canada on December 5, 1989, and is located at 218 Steeles Avenue East, Thornhill, Ontario L3T 1A6. Croft Financial Group provides full service investment management and advisory services to mutual fund corporations and private family accounts.

## **FEES AND EXPENSES**

Managed Clients, as defined below, pay a Schedule "A" fee to Croft Financial Group as provided in the MIAA between the investor and Croft Financial Group. The Schedule "A" fee does not include management fees paid to the Portfolio Advisors in the Manager Select Program. Each Class pays a management fee to the Portfolio Advisor advising on that Class as follows:

<u>Class</u>	<u>Management Fees</u>	<u>Portfolio Manager</u>
Class A-5	0.35% per annum	Avenue Investment Management
Class B-5	0.40% per annum	Barrantagh Investment Management Inc.
Class C-5	0.35% per annum	Leon Frazer & Associates
Class D-5	0.45% per annum	Rondeau Capital Inc.
Class E-5	0.50% per annum	Avenue Investment Management
Class F-5	0.60% per annum	Barrantagh Investment Management Inc.

Management fees are calculated daily and accrued monthly.

The Corporation will be responsible for the costs of initially organizing the Corporation and offering its Shares, including, without limitation, the fees and expenses of counsel and the Corporation's auditors. These costs will be allocated on a pro rata basis as an asset of each Class for the purpose of calculating Net Asset Value and will be amortized over a period not less than 2 years and not greater than 5 years, at the discretion of the manager, payable in not less than 24 equal monthly amounts or not greater than 60 equal monthly amounts.

Each Class will pay for all routine and customary expenses relating to the Class's operation, including registrar and transfer agency fees and expenses, custodian fees, auditing, legal and accounting fees, communication expenses, printing and mailing expenses, all interest expenses and all brokerage and other fees relating to the purchase and sale of the assets of the Classes, including costs associated with allocation of securities to Class accounts, all costs and expenses associated with the sale of Shares including private placement report fees, expenses related to providing financial and other reports to Shareholders and convening and conducting meetings of Shareholders, if any. Croft Financial Group will, or will arrange to, provide the services associated with such expenses. Croft Financial Group may retain Croft Capital Management or third party service providers to provide some of these services to a Class. Each Class will be responsible for all taxes, assessments or other governmental charges levied against the Corporation on a pro rata basis based on the Net Asset Value of the Class.

## **PORTFOLIO ADVISORS**

**Avenue Investment Management** provides portfolio advisory services to Class C-5 (Avenue Bond) and Class G-5 (Avenue Total Return Equity). Avenue Investment Management is located at 47 Colborne Street, Suite 300, Toronto, Ontario, Canada, M5E 1P8. Avenue Investment Management can be contacted at 416-482-2004 or Toll Free at 1-888-482-0007 ([www.avenueinvestment.com](http://www.avenueinvestment.com)).

**Barrantagh Investment Management** provides portfolio advisory services to Class B-5 (Barrantagh Fixed Income) and Class F-5 (Barrantagh Total Equity). Barrantagh Investment Management is located at 100 Yonge Street, Suite 1700, Toronto, Ontario, M5C 2W1. Barrantagh Investment Management can be contacted at 416-864-7966 or Toll Free at 1-888-778-0888 ([www.barrantagh.com](http://www.barrantagh.com)).

**Rondeau Capital Inc.** provides portfolio advisory services to Class F-5 (Rondeau Growth Equity). Rondeau Capital is located at 40 Holly Street, Suite 102, Toronto, Ontario, M5S 3C3. Rondeau Capital can be contacted at 416-487-4444 or Toll Free at 1-877-560-5756 ([www.rondeaucapital.com](http://www.rondeaucapital.com)).

**Leon Frazer & Associates** provides portfolio advisory services to Class E-5 (Leon Frazer Canadian Dividend). Leon Frazer & Associates is located at 8 King Street East, Suite 2001, Toronto, Ontario, M5C 1B6. Leon Frazer & Associates can be contacted at 416-864-1120 ([www.leonfrazer.com](http://www.leonfrazer.com)).

## **SHARES**

The Shares of a Class offered hereinunder are non-voting and entitled to participate equally in a Class's distributions and in its assets on liquidation. Shares are issued as fully paid and non-assessable and are redeemable at their Net Asset Value.

Each Class is available to investors who, through a referral arrangement or through a direct relationship (referred to as a "Managed Client"), have entered into a MIAA with Croft Financial Group. The MIAA will enable Croft Financial Group to purchase and redeem Shares on an investor's behalf in a manner consistent with the investor's objectives and risk tolerances.

## **CALUATION OF THE CLASS AND SHARES**

The Net Asset Value of each Class is calculated after the close of business on each Valuation Date. A "Valuation Date" is Wednesday (or the next Business Day thereafter if Wednesday is not a Business Day) in each week, or such other time as Croft Financial Group determines is appropriate. On each Valuation Date, Investment Administration Solution Inc. calculates the Net Asset Value of each Class. Generally, this is based on the market value of the assets of the Class, less any liabilities of the Class, divided by the total number of Shares of the Class held by Shareholders. The Net Asset Value will fluctuate with the value of the Class's investments. See "Valuation and Net Asset Value".

## **PURCHASING AND REDEEMING SHARES**

Each Class is available to investors who, through a referral arrangement or through a direct relationship (referred to as a "Managed Client"), have entered into a MIAA with Croft Financial Group. The MIAA will enable Croft Financial Group to purchase and redeem Shares on an investor's behalf in a manner consistent with the investor's objectives and risk tolerances.

The number of Shares to be issued to the investor will be equal to the quotient obtained by dividing the dollar amount invested in a Class by the Net Asset Value per Share on the next Valuation Date.

Shares of a Class may be redeemed for the Net Asset Value per Share as of the close of business on the next Valuation Date after the request for the redemption is made. Requests received by Croft Financial Group after 3 p.m. on a Valuation Date will be processed on a best efforts basis. Requests received by Croft Financial Group after 4 p.m. on a Valuation Date, will be processed at the applicable Net Asset Value per Share as of the next Valuation Date.

## **DISTRIBUTIONS**

The board of directors of the Corporation may declare dividends, at its discretion, payable on any Class of the Corporation. The board of directors has adopted a policy for each Class of assessing annually the Corporation's net income and net realized capital gains and declaring income dividends and, to the extent possible, sufficient capital gains dividends from time to time to offset capital gains tax which would

otherwise be payable by the Corporation, and may declare capital gains dividends in excess of this amount.

The dividends will be reinvested automatically in additional Shares of the Corporation. A Shareholder who wishes to receive distributions in cash shall, upon completing an appropriate written request in advance, be paid all or part of the distributions payable into the Shareholder's Croft Financial Group investment account.

If the return for a Class is less than the amount necessary to fund dividends, Croft financial Group may return a portion of the capital of the Shares to Shareholders and accordingly, the NAV per Share will be reduced.

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

It is assumed that at all material times the Corporation will qualify as a mutual fund corporation under the Tax Act. The Corporation is generally taxable on its taxable income at normal corporate rates. A corporation that qualifies as an investment corporation, as determined annually under the Tax Act, is entitled to certain preferential tax treatment. The Corporation may qualify as an investment corporation, but no assurance is given that it will qualify throughout its current or subsequent taxation years.

Shareholders must include in their income all net income (including dividends) and net taxable capital gains, if any, payable to them, whether paid by reinvestment in additional Shares or in cash. Dividends paid by the Corporation, other than capital gains dividends, whether paid by reinvestment in additional Shares or in cash, to Shareholders who are individuals are eligible for a dividend tax credit through the gross-up and credit procedure applicable to dividends received from taxable Canadian corporations. Where a Shareholder redeems or otherwise disposes of, or is deemed to dispose of, Shares, generally a capital gain (or a capital loss) will be realized to the extent that the proceeds of disposition of the Shares exceed (or are exceeded by) the aggregate of the adjusted cost base to the Shareholder of the Shares and any reasonable costs of disposition.

See "Certain Income Tax Considerations". Each Shareholder should satisfy himself or herself as to the federal, provincial, territorial and any foreign tax consequences of an investment in Shares by obtaining advice from his or her tax advisor.

### **ELIGIBILITY FOR INVESTMENT BY REGISTERED PLANS**

Provided the Corporation is a mutual fund corporation, the Shares of each Class will be qualified investments under the Tax Act for registered tax plans.

If Shares are held in a registered tax plan, income (including dividends) and capital gains received from the Corporation, and capital gains realized on selling or transferring the Shares, will not be taxable in such registered tax plan, but any amounts withdrawn from such registered tax plan may be taxable at such time.

See "Certain Income Tax Considerations". Each Shareholder should satisfy himself or herself as to the federal, provincial, territorial and any foreign tax consequences of an investment in Shares by obtaining advice from his or her tax advisor.

## **FINANCIAL YEAR**

The financial year end of the Corporation is July 30.

## **CONNECTED ISSUERS**

The Corporation is a related and/or "connected" issuer of Croft Financial Group under applicable securities laws.

## **STATUTORY AND CONTRACTUAL RIGHTS**

Shareholders are entitled to the benefit of certain statutory or contractual rights of action. See "Statutory and Contractual Rights of Action".

## **GLOSSARY OF TERMS**

**"Business Day"** means each day that the Toronto Stock Exchange is open for trading;

**"Classes"** means Class A-5 Avenue Bond, Class B-5 Barrantagh Fixed Income, Class C-5 Leon Frazer Canadian Dividend, Class D-5 Rondeau Value Equity, Class E-5 Avenue Total Return Equity and Class F-5 Barrantagh Total Equity;

**"Corporation"** means CFG Custom Portfolio Corporation;

**"Croft Financial Group"** means R.N. Croft Financial Group Inc.;

**"Custodian"** means NBCN Inc. or any sub-custodians of the Custodian appointed by the Corporation;

**"Custodian Agreement"** means the agreement between the Corporation and NBCN Inc. providing for the custody of assets of the Classes;

**"Gross Asset Value"** means the asset value of the Class calculated as described under "Valuation and Net Asset Value" but without deduction of liabilities;

**"Management Agreement"** means the agreement between Croft Financial Group and the Corporation pursuant to which Croft Financial Group manages the Classes;

**"Management Fee"** means the fee paid by each Class to the applicable Portfolio Advisor which fee is set out herein under "FEES AND EXPENSES - Management Fee";

**"MIAA"** means the managed investment account agreement between Croft Financial Group and an investor in the Manager Select Program;

**"NI 81-102"** means National Instrument 81-102 *Mutual Funds*.

**"Net Asset Value"** means the net asset value of the Class calculated as described under "Valuation and Net Asset Value";

**"Net Asset Value per Share"** means the price or Net Asset Value per Share on subscription or redemption of a Share or on liquidation of a Class;

**"Offering Jurisdictions"** means British Columbia, Alberta, Saskatchewan, Manitoba, Quebec, and Ontario;

**"Portfolio Advisors"** means Avenue Investment Management Inc., Barrantagh Investment Management Inc., Leon Frazer & Associates Inc., and Rondeau Capital Inc.

**"Registrar and Transfer Agency Agreement"** means the agreement between the Corporation and The Investment Administration Solution Inc. providing for registrar and transfer agency services to the Classes;

**"Shareholder"** means the holder of one or more Shares of a Class;

**"Shares"** means Shares of the Classes;

**"Sub-Advisory Agreements"** means the agreements between Croft Financial Group and each Portfolio Advisor providing for the management of the investment portfolios of their respective Class;

**"Tax Act"** means the *Income Tax Act* (Canada) and the regulations thereunder, as amended from time to time; and

**"Valuation Date"** means Wednesday in each week or the next Business Day thereafter if a Wednesday is not a Business Day, and such other date or dates as Croft Financial Group determines to be appropriate.

## THE MANAGER SELECT PROGRAM

Prospective investors are encouraged to consult their own professional advisors as to the tax and legal consequences of investing in the Corporation.

### MANAGER SELECT PROGRAM

The Manager Select Program, offered by R N Croft Financial Group Inc. ("Croft Financial Group"), is a series of share classes that enable investors to invest in specific portfolios offered by third party investment managers. The Manager Select Program is intended to provide investors access to specific actively managed investment strategies that would form part of a broader portfolio.

Croft Financial Group determines an appropriate portfolio mix, based on information about the investor provided in the investor's Managed Investment Account Agreement (MIAA) and through ongoing client information gathering processes. The investor's portfolio asset mix as set out in the MIAA is confirmed with the investor by a registered individual at Croft Financial Group to make certain that the asset mix, as defined by the MIAA, is both suitable and appropriate for the investor's long term objectives and risk tolerances.

Having ascertained the appropriateness of the investor's asset mix and confirmed that the assigned mandate (i.e. Growth, Balanced, Conservative or Income) is appropriate for the investor, Croft Financial Group will set out to purchase on behalf of the investor, securities that correspond to the investor's mandate. If the investor chooses, the Manager Select program can form part or all of the Client's portfolio mandate. However, investors would not typically access one specific manager and / or one strategy for their entire portfolio.

The Corporation has retained the following Portfolio Advisors to manage the investments within specific Classes of the Corporation;

Class A-5	Avenue Bond	Avenue Investment Management Inc.
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Class E-5	Avenue Total Return Equity	Avenue Investment Management Inc.
Class F-5	Barrantagh Total Equity	Barrantagh Investment Management Inc.

## THE CORPORATION

The Corporation is an open-end mutual fund corporation incorporated on August 18, 2006 under the laws of Canada. Each Class of the Corporation represents a separate segregated investment fund with its own investment objective. An investment in a Class is represented by Shares of that Class.

The Corporation is authorized to issue an unlimited number of series in each class of Shares.

The Classes and series of Shares offered hereunder are:

Class A-5	Avenue Bond
Class B-5	Barrantagh Fixed Income
Class C-5	Leon Frazer Canadian Dividend
Class D-5	Rondeau Value Equity
Class E-5	Avenue Total Return Equity
Class F-5	Barrantagh Total Equity

## **THE OFFERING**

Shares of the Corporation are offered on a continuous basis at a price equal to the applicable Net Asset Value per Share at the time of purchase to eligible investors resident in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, and Quebec (the "Offering Jurisdictions") pursuant to exemptions from the prospectus requirements of the Offering Jurisdictions. The initial Net Asset Value of a Share will be \$10.00. Thereafter, Shares will be offered at the applicable Net Asset Value per Share.

## **ELIGIBLE INVESTORS**

In order to be eligible to purchase Shares, investors must enter into a MIAA with Croft Financial Group and, in the case of residents of Ontario, be either an accredited investor or qualify under the minimum amount investment exemption.

## **INVESTMENT OBJECTIVES OF THE CLASSES**

### ***Class A-5 Avenue Bond***

This Class seeks to provide investors with steady income, limited potential for capital gain and low risk of capital loss.

### ***Class B-5 Barrantagh Fixed Income***

The objectives of the portfolio are to generate a steady flow of income while preserving the capital of the portfolio over the longer term.

The level of risk (volatility) in the portfolio is over the long term, generally below the risk associated with equity markets. Generation of a secure, sustainable level of income is the primary consideration.

### ***Class C-5 Leon Frazer Canadian Dividend***

This Class seeks to provide investors capital growth supported by income.

### ***Class D-5 Rondeau Value Equity***

This Class seeks to provide long-term capital growth primarily through investment in a diversified portfolio of Canadian Equity securities.

### ***Class E-5 Avenue Total Return Equity***

This Class seeks to provide capital growth and cash flow through investments in a diversified portfolio of Canadian, US and international stocks, warrants, bonds and cash.

### ***Class F-5 Barrantagh Total Equity***

The objective of this portfolio is to earn a total rate of return higher than that of the stock market as a whole over the long term. The level of risk (volatility) in the portfolio is greater than that of equity markets in general.

## **INVESTMENT STRATEGIES OF THE CLASSES**

### ***Class A-5 Avenue Bond***

Securities held in this Class will consist mostly of fixed income securities and cash with some exposure to income trusts, convertible stocks, preferred shares, bonds and high yield bonds. Fixed income is defined as government bonds, corporate bonds and money market instruments, such as treasury bills, banker's acceptances and commercial paper. Opportunities to participate in private placements and to invest in other types of instruments may be taken up if the agreed upon asset mix for the Class's portfolio is maintained and, in the sole discretion of the investment adviser, the liquidity of the Class's portfolio is not substantially affected.

Representative Asset Mix for this Class:

<b>Income Trusts</b>		
<b>Fixed Income</b>	<b>High Yield / Convertibles</b>	<b>Cash</b>
60% - 100%	0% - 20%	0% - 20%

### ***Class B-5 Barrantagh Fixed Income***

The objectives of the portfolio are to generate a steady flow of income while preserving the capital of the portfolio over the longer term. Generation of a secure, sustainable level of income is the primary consideration.

A neutral position will be defined as 90% bonds, 10% cash equivalents. The percentage mix between these components (exposure) will be altered periodically to enhance income and/or investment results or to mitigate risk depending on market conditions.

The bond component will consist of federal, provincial and municipal government bonds and investment grade (rated BBB (low) and higher) corporate fixed-income securities. The income earned by the portfolio will consist of interest income. Capital

gains realized in the investment process will be reinvested to create additional future income.

Sectoral exposure in the corporate bond market, and in the other components, will be monitored and in general investment in any one sector would be limited to 15% of total market value of the portfolio.

The holdings in the portfolio will be broadly diversified. The exposure to any one security will be rebalanced as deemed appropriate so that the holding of a security does not constitute an unreasonably high proportion of the total market value of the portfolio with the exception of government bond holdings.

#### ***Class C-5 Leon Frazer Canadian Dividend***

This Class will typically invest in 25 to 35 securities that include North American stocks, income trusts, convertible preferred shares and debentures, warrants and instalment receipts.

The Class seeks out companies with strong earnings and cash flow history as well as a management team that is committed to paying out earnings in the form of dividends. This dividend income provides current return and capital stability.

Prospective companies are evaluated using traditional qualitative measures like quality of management and industry leadership, as well as quantitative measures like dividend growth and yield, earnings growth, earnings stability and cash flow growth. The primary philosophy is that capital growth is supported by income (dividend) growth.

#### ***Class D-5 Rondeau Value Equity***

Rondeau Capital Inc. primarily utilizes a “bottom up” stock picking portfolio construction and management process that focuses on fundamental analysis and valuation of individual companies. Analysis of fundamental operating metrics, valuation and management strength is undertaken to determine appropriateness of an investment. Careful attention is paid to expected risk adjusted returns of any potential investment.

The Class may invest up to 50% of the cost of its net assets in foreign securities.

The Class's portfolio turnover is expected to be moderate which may result in increased transaction expenses and the realization of capital gains.

The Class's investment in equity securities is actively managed and will range between 0% and 100% of the Class's assets, as determined by Rondeau Capital Inc. depending on its assessment of economic and market factors.

#### ***Class E-5 Avenue Total Return Equity***

Securities held in this Class will be primarily a mixture of publicly traded common or preferred shares, convertible debentures or bonds, government bonds, corporate bonds (including high yield bonds), warrants, rights or cash. These securities may be domestic or international, and held in their respective currencies or hedged back to Canadian dollars. Opportunities to participate in private placements and to invest

in other types of instruments may be taken up if the agreed upon asset mix for the Class's portfolio is maintained and, in the sole discretion of the Investment Adviser, the liquidity of the Class's portfolio is not substantially affected. The Class's primary characteristics are to provide the investor with the potential for long term capital gain.

Representative Asset Mix for this Class:

<b>Equities</b>	<b>Bonds</b>	<b>Cash</b>
40% - 100%	0% - 60%	0% - 20%

***Class F-5 Barrantagh Total Equity***

The Class will be broadly diversified with an asset allocation range of 60% to 100% for equities, 0% to 40% for cash and cash equivalents. The asset allocation will be adjusted as perceived economic conditions and investment opportunities dictate.

The equity component will consist of large capitalization Canadian and International stocks in general with sound long term prospects and leading industry positions. Exposure to small capitalization stocks and special situations will be permitted, but limited to a small portion of the portfolio

Exposure to the Global equity market is considered important to achieve exposure to global growth trends and to sectors not available through companies listed on Canadian exchanges.

Exposure to European, Asian and Latin American markets will be achieved through investment in North American companies with international exposure and directly through investment in foreign companies.

The holdings in the Class will be broadly diversified. The exposure to any one security will be rebalanced as deemed appropriate so that the holding of a security does not constitute an unreasonably high proportion of the total market value of the portfolio.

Derivatives and/or options will not be used.

**GENERAL**

The Classes generally will seek to remain fully invested. However, they may hold cash-equivalents for defensive purposes during unusual market conditions or to maintain liquidity.

As each Class's portfolio is expected to include securities and assets that are not denominated in Canadian dollars, the Classes may invest in or use foreign exchange derivative instruments for the purposes of currency hedging in respect of assets that are not denominated in Canadian dollars.

## **LEVERAGE**

Each Class may utilize leverage to a maximum of 10% in the aggregate (at the time of incurring the leverage) of the Gross Asset Value of each Class. All Classes may borrow or purchase securities on margin provided that;

- (a) only “marketable securities” (being securities for which a ready market exists and, therefore, can be sold easily and quickly) may be purchased using this form of leverage;
- (b) all borrowings by the Class for this purpose must be on normal commercial terms; and
- (c) all purchases on margin must comply with the margining requirements of any applicable stock exchange or other regulatory body.

## **INVESTMENT RESTRICTIONS:**

Classes have no geographic, industry or sector restrictions.

When investing in equity securities (also called stocks or shares) the value of Shares and any income and gains associated with them can fluctuate significantly and may be quite volatile. Subscribers should be aware that they may not achieve their anticipated returns and may, in fact, suffer significant loss. The value of the Classes will be affected by changes in the market price of those securities. The securities business is speculative, prices are volatile and market movements are difficult to predict. The price of a stock is affected by individual company developments and by general economic and financial conditions in those countries where the issuer of the stock is located or where the stock is listed for trading.

Each Class is currently subject to the following restrictions:

- (a) Each Class will not purchase securities other than through normal market facilities unless the purchase price thereof approximates or is less than the prevailing market price or is negotiated or established on an arm’s length basis by the Portfolio Advisor.
- (b) Each Class will not purchase any security which may, by its terms, require the Class to make a contribution in addition to the payment of the purchase price, provided that this restriction shall not apply to the purchase of securities which are paid for in instalments which are fixed at the time the first instalment is paid.

Croft Financial Group may from time to time establish investment restrictions, policies or guidelines with respect to a Class. Such policies or guidelines, if so established, may be amended from time to time by Croft Financial Group without the consent of, or any notice to, the Shareholders.

## **SECURITIES LENDING**

Each Class may enter into securities lending transactions in order to earn additional returns. These transactions would be entered into for the benefit of the Class and therefore, all additional custodial expenses would be paid for by the Class. A Class will not enter into a securities lending transaction or a repurchase transaction if, immediately thereafter, the aggregate market value of all securities loaned by the Class and not yet returned to it or sold by the Class in repurchase transactions and not yet repurchased would exceed 50% of the total assets of the Class (exclusive of collateral held by the Class for securities lending transactions and cash held by the Class for repurchase transactions). Each transaction must qualify as a "securities lending arrangement" for the purposes of the Tax Act.

## CROFT FINANCIAL GROUP AND THE CORPORATION

### CROFT FINANCIAL GROUP

Croft Financial Group is located at 218 Steeles Avenue East, Thornhill, Ontario L3T 1A6. Croft Financial Group is the manager of each of the Classes. The phone number of Croft Financial Group is (905) 695-7777. You can contact Croft Financial Group by e-mail at [info@croftgroup.com](mailto:info@croftgroup.com) or toll free by calling 1-877-249-2884.

Croft Financial Group manages the Classes pursuant to the terms of the Management Agreement. Croft Financial Group has entered into Sub-Advisory agreements with each of the Portfolio Advisors who are responsible for managing the investment portfolios of their respective Class and compliance with the investment policies, restrictions and practices of the Classes. Croft Financial Group will provide or arrange for the provision of all general administrative services related to each Class.

Croft Financial Group is registered under applicable securities legislation as an investment fund manager and portfolio manager. Croft Financial Group will hold and maintain all such registrations as may be necessary under applicable securities laws and regulations to perform its obligations to the Classes and Shareholders.

The name and municipality of residence, position and office held with Croft Financial Group and current principal occupation of each of the directors and officers of Croft Financial Group are as follows:

<b>Name &amp; Municipality of Residence</b>	<b>Position &amp; Office held at Croft Financial Group</b>	<b>Current Principal Occupation</b>
Richard N. Croft Toronto, Ontario	Director, Chief Executive Officer, Secretary and Treasurer, Chief Compliance Officer	Investment Counsellor and Portfolio Manager, Croft Financial Group
Barbara Croft Toronto, Ontario	Chief Financial Officer	Chief Financial Officer Croft Financial Group
Christopher Croft Toronto, Ontario	Director of Compliance	Director

Richard Croft has held his current position and principal occupation with Croft Financial Group during the five years preceding the date hereof.

## PORTFOLIO ADVISORY SERVICES

Portfolio advisory services are provided to each Class by the following Portfolio Advisors;

- ◆ **Avenue Investment Management** provides portfolio advisory services to Class A-5 (Avenue Bond) and Class E-5 (Avenue Total Return Equity). Avenue Investment Management is located at 47 Colborne Street, Suite 300, Toronto, Ontario, Canada, M5E 1P8. Avenue Investment Management can be contacted at 416-482-2004 or Toll Free at 1-888-482-0007 ([www.avenueinvestment.com](http://www.avenueinvestment.com)).
- ◆ **Barrantagh Investment Management** provides portfolio advisory services to Class B-5 (Barrantagh Fixed Income) and Class F-5 (Barrantagh Total Equity). Barrantagh Investment Management is located at 100 Yonge Street, Suite 1700, Toronto, Ontario, M5C 2W1. Barrantagh Investment Management can be contacted at 416-864-7966 or Toll Free at 1-888-778-0888 ([www.barrantagh.com](http://www.barrantagh.com)).
- ◆ **Rondeau Capital Inc.** provides portfolio advisory services to Class D-5 (Rondeau Growth Equity). Rondeau Capital is located at 40 Holly Street, Suite 102, Toronto, Ontario, M5S 3C3. Rondeau Capital can be contacted at 416-487-4444 or Toll Free at 1-877-560-5756 ([www.rondeaucapital.com](http://www.rondeaucapital.com)).
- ◆ **Leon Frazer & Associates** provides portfolio advisory services to Class C-5 (Leon Frazer Canadian Dividend). Leon Frazer & Associates is located at 8 King Street East, Suite 2001, Toronto, Ontario, M5C 1B6. Leon Frazer & Associates can be contacted at 416-864-1120 ([www.leonfrazer.com](http://www.leonfrazer.com)).

## THE CORPORATION

The CFG Custom Portfolio Corporation is located at 218 Steeles Avenue East, Thornhill, Ontario L3T 1A6.

The name and municipality of residence, position and office held with the Corporation and current principal occupation of each of the directors and officers of the Corporation are as follows:

<b>Name &amp; Municipality of Residence</b>	<b>Position &amp; Office held at Croft Financial Group</b>	<b>Current Principal Occupation</b>
Richard N. Croft Toronto, Ontario	Director, Chief Executive Officer, Secretary and Treasurer	Investment Counsellor and Portfolio Manager, Croft Financial Group

The financial year end of the corporation is July 30.

## CONFLICTS OF INTEREST

### PRINCIPAL HOLDERS OF SECURITIES

#### *Classes*

As of the date of this Offering Memorandum, no person or company owns of record or, to the knowledge of the Corporation or Croft Financial Group, beneficially, directly or indirectly, more than 10% of the total outstanding Shares of any of the Classes.

Barbara Croft, an officer of Croft Financial Group, owns 100% of the common shares of the Corporation. The common shares of the Corporation carry the right to vote, among other things, for the election of directors. The common shares have no entitlement to dividends and no entitlement to assets of the Corporation on liquidation of the Corporation.

#### *Croft Financial Group*

All of the outstanding voting shares of Croft Financial Group, the manager of the Classes, are owned by Richard Croft.

#### *Relationship with Croft Financial Group*

The Corporation is a related and connected issuer of Croft Financial Group under applicable securities laws.

#### *Access to Investment Advice*

Croft Financial Group has adopted internal policies to ensure that no officer, director or employee of Croft Financial Group other than advising officers and trading officers will participate in the formulation of, or have access prior to implementation to, investment decisions made on behalf of clients, including the Corporation, of Croft Financial Group.

#### *Referral Fees*

Croft Financial Group may from time to time pay referral fees to entities that refer clients to Croft Financial Group. If a client is referred to Croft Financial Group by such an entity, the client's MIAA will disclose the details pertaining to the referral arrangement between Croft Financial Group and the referring entity and Croft Financial Group will obtain the client's consent before paying any such referral fees.

#### *Brokerage Arrangements*

All decisions as to the purchase and sale of portfolio securities and all decisions as to the execution of such portfolio transactions, including the selection of market and dealer and the negotiation of commissions, where applicable, will be made by the Portfolio Advisors. In effecting portfolio transactions, each Portfolio Advisor will seek to obtain best execution of orders as required by applicable securities regulations and the terms of the applicable Sub-advisory Agreement.

## FEES AND EXPENSES

### FEES AND EXPENSES

Managed clients pay a Schedule "A" fee to Croft Financial Group as provided in the MIAA between the investor and Croft Financial Group. The Schedule "A" fee does not include management fees paid to the Portfolio Advisors in the Manager Select Program.

### MANAGEMENT FEE

Each Class pays a Management Fee to the Portfolio Advisor as follows:

<u>Class</u>	<u>Management Fees</u>	<u>Portfolio Manager</u>
Class A-5	0.35% per annum	Avenue Investment Management
Class B-5	0.40% per annum	Barrantagh Investment Management Inc.
Class C-5	0.35% per annum	Leon Frazer & Associates
Class D-5	0.45% per annum	Rondeau Capital Inc.
Class E-5	0.50% per annum	Avenue Investment Management
Class F-5	0.60% per annum	Barrantagh Investment Management Inc.

Management fees are calculated daily and accrued monthly.

### PERFORMANCE BONUS

None of the Classes pay a performance bonus

### ADMINISTRATION FEES AND EXPENSES

The Corporation will be responsible for the costs of initially organizing the Corporation and offering its Shares, including, without limitation, the fees and expenses of counsel and the Corporation's auditors. These costs will be allocated on a pro rata basis as an asset of each Class for the purpose of calculating Net Asset Value and will be amortized over a period not less than 2 years and not greater than 5 years, at the discretion of the manager, payable in not less than 24 equal monthly amounts or not greater than 60 equal monthly amounts.

Each Class will pay for all routine and customary expenses relating to the Class's operation, including registrar and transfer agency fees and expenses, custodian fees, auditing, legal and accounting fees, communication expenses, printing and mailing expenses, all interest expenses and all brokerage and other fees relating to the purchase and sale of the assets of the Classes, including costs associated with allocation of securities to Class accounts, all costs and expenses associated with the sale of Shares including private placement report fees, expenses related to providing financial and other reports to Shareholders and convening and conducting meetings of Shareholders, if any. Croft Financial Group will, or will arrange to, provide the services associated with such expenses. Croft Financial Group may retain Croft

Capital Management or third party service providers to provide some of these services to a Class. Each Class will be responsible for all taxes, assessments or other governmental charges levied against the Corporation on a pro rata basis based on the Net Asset Value of the Class.

## **INVESTING IN THE CLASSES**

### **PURCHASING AND REDEEMING SHARES**

Each Class of shares is available to investors who, through a referral arrangement or through a direct relationship (referred to as a "Managed Client"), have entered into a MIAA with Croft Financial Group. The MIAA will enable Croft Financial Group to purchase and redeem Shares on an investor's behalf in a manner consistent with the investor's objectives and risk tolerances.

The initial Net Asset Value of a Share will be \$10.00. Thereafter, Shares will be offered at the applicable Net Asset Value per Share. The number of Shares issued to the investor will be equal to the quotient obtained by dividing the dollar amount invested in a Class by the Net Asset Value per Share on the next Valuation Date.

Shares of a Class may be redeemed for the Net Asset Value per Share as of the close of business on the next Valuation Date after the request for the redemption is made. Requests received by Croft Financial Group after 4 p.m. on a Valuation Date, will be processed at the applicable Net Asset Value per Share as of the next Valuation Date.

### **SECURITIES LAW EXEMPTIONS AND ELIGIBLE INVESTORS**

In order to be eligible to purchase Shares exempt from prospectus requirements in the Offering Jurisdictions, investors must enter into a MIAA with Croft Financial Group and, in the case of residents of Ontario, be an accredited investor or qualify under the minimum amount investment exemption.

### **DISTRIBUTIONS**

The board of directors of the Corporation may declare dividends, at its discretion, payable on any Class of the Corporation. The board of directors has adopted a policy for each Class of assessing annually the Corporation's net income and net realized capital gains and declaring income dividends and, to the extent possible, sufficient capital gains dividends from time to time to offset capital gains tax which would otherwise be payable by the Corporation, and may declare capital gains dividends in excess of this amount.

The dividends will be reinvested automatically in additional Shares of the Corporation. A Shareholder who wishes to receive distributions in cash shall, upon completing an appropriate written request in advance, be paid all or part of the distributions payable into the Shareholder's Croft Financial Group investment account.

If the return for a Class is less than the amount necessary to fund dividends, Croft financial Group may return a portion of the capital of the Shares to Shareholders and accordingly, the NAV per Share will be reduced.

## **VALUATION AND NET ASSET VALUE**

Investment Administration Solution Inc. will determine the Net Asset Value of each Class as of every Valuation Date. The Net Asset Value of a Class is determined by valuing the assets of the Class and deducting all its liabilities. The Net Asset Value of a Class is divided by the number of Shares outstanding (before redemptions and subscriptions) at the close of business on a Valuation Date to determine the Net Asset Value per Share. The Net Asset Value of each Class will be reported in Canadian currency.

Croft Financial Group may declare a suspension of the determination of Net Asset Value for the whole or part of any period in which the right of redemption has been suspended.

## **SHARES OF THE CLASSES**

An investment in a Class is represented by an investment in the Shares of the Class.

Shares of each Class have the following attributes:

- ◆ the Shares have no voting rights; the holders of Shares have no entitlement to receive notice of or to attend any meeting of common shareholders of the Corporation;
- ◆ on the dissolution of a Corporation, the assets of the Class will be distributed and all holders of Shares of the Class will share in the value of the Class on a proportionate basis;
- ◆ there are no conversion rights;
- ◆ there are no pre-emptive rights;
- ◆ the Shares of a Class cannot be transferred except in limited circumstances;
- ◆ there is no liability for further calls or assessments;
- ◆ the Shares of a Class may be sub-divided or automatically consolidated immediately after each dividend such that the net asset value per share shall be equal to the net asset value per share immediately prior to such dividend; and
- ◆ a fractional Share of a Class carries the rights and privileges and is subject to the restrictions and conditions applicable to whole shares in the proportion which it bears to one Share.

## **CERTAIN INCOME TAX CONSIDERATIONS**

This section describes the principal Canadian federal income tax considerations applicable to the Corporation and to investors who are individuals resident in Canada (other than trusts), who deal with the Corporation at arm's length, are not affiliated with the Corporation and who hold Shares as capital property for tax purposes.

Certain investors who might not otherwise be considered to hold their Shares as capital property may, in certain circumstances, be entitled to have them treated as capital property by making an irrevocable election permitted by subsection 39(4) of the Tax Act.

This summary takes into account the current provisions of the Tax Act and the regulations under the Tax Act, all proposals to amend the Tax Act and regulations publicly announced prior to the date hereof and the published administrative and assessing practices and policies of the Canada Revenue Agency ("CRA"). This summary does not otherwise take into account or anticipate any change in law or administrative practice or policy, whether by legislative, regulatory, administrative or judicial action. In addition, it does not take into account provincial or foreign tax considerations.

This summary assumes that at all material times the Corporation will qualify as a mutual fund corporation under the Tax Act.

This summary is general in nature and is not intended to be exhaustive of all possible income tax considerations. You should consult your own tax adviser for advice with respect to the tax consequences of an investment in the Corporation in your particular circumstances.

### **TAXATION OF THE CORPORATION**

The Corporation is generally taxable on its taxable income at normal corporate rates. The Corporation is subject to refundable Part IV tax on dividends it receives from taxable Canadian corporations to the extent that such dividends are deductible in computing its taxable income. Such tax is refunded when the Corporation pays taxable dividends, other than capital gains dividends, to the shareholders. The tax payable by the Corporation on capital gains will be refundable to the extent such gains are paid to Shareholders in the form of capital gains dividends or Shares of the Corporation are redeemed. Capital gains taxes may arise for the Corporation from the consequential disposition of investments by the Corporation when a Shareholder of one class converts Shares to another Class. The Corporation will pay tax under Part I.3 of the Tax Act.

A corporation that qualifies as an investment corporation, as determined annually under the Tax Act, is entitled to certain preferential tax treatment. The Corporation may qualify as an investment corporation, but no assurance is given that it will qualify throughout its current or subsequent taxation years. If the Corporation qualifies as an investment corporation, it will receive a credit of 20% of the amount, if any, by which its taxable income for the year exceeds its taxed capital gains for the year.

The Corporation will be required to compute its net income and net realized capital gains in Canadian dollars for the purposes of the Tax Act. As a result, the

Corporation may realize income or capital gains by virtue of changes in the value of a foreign currency relative to the Canadian dollar.

Generally, gains and losses from derivative transactions and short sales will, for tax purposes, be on income account rather than capital account.

Premiums received by the Corporation on covered call options and cash covered put options written by the Corporation (which are not exercised prior to the end of the year) will constitute capital gains of the Corporation in the year received, unless such premiums are received by the Corporation as income from a business or the Corporation has engaged in a transaction or transactions considered to be an adventure in the nature of trade. The Corporation will purchase equity securities on which the cover call options are written with the objective of earning dividends thereon over the life of the Corporation, will write covered call options with the objective of increasing the yield on the equity securities in its portfolio beyond the dividends received on such portfolio and will write cash covered put options to increase returns and reduce the net cost of purchasing securities upon the exercise of such cash covered put options. Having regard to the foregoing in accordance with CRA's published administrative practice, transactions undertaken by the Corporation in respect of options and shares will be treated and reported for tax purposes on capital account.

Premiums received by the Corporation on covered call (or cash covered put) options which are subsequently exercised are added in computing the proceeds of dispositions (or deducted in computing the adjusted cost base) to the Corporation of the securities disposed of (acquired by) by the Corporation on exercise of such call (put) options. In addition, where the premium was in respect of an option granted in a previous year so that it constituted a capital gain of the Corporation in the previous year, such capital gain will be deducted from income in the year in which it was originally included.

Previously announced tax proposals dealing with the taxation of investments in non-resident entities may require the Corporation, if it invests in certain securities of a non-resident entity, to include in income for each year beginning after 2006, a prescribed percentage of the Corporation's "designated cost", as defined, of such securities for the year, any gains or losses accrued on such securities for the year or amount based on a mark-to-market of such securities. Any additional income to the Corporation arising under these new rules generally would be reflected in additional distributions to shareholders.

## **SHARES HELD IN REGISTERED TAX PLANS**

Provided the Corporation is a mutual fund corporation, the Shares of each Class will be qualified investments under the Tax Act for registered tax plans.

If Shares are held in a registered tax plan, income (including dividends) and capital gains received from the Corporation, and capital gains realized on selling or transferring the Shares, will not be taxable in such registered tax plan, but any amounts withdrawn from such registered tax plan may be taxable at such time.

## **SECURITIES HELD IN NON-REGISTERED ACCOUNTS**

Shareholders must include in their income all net income (including dividends) and net taxable capital gains, if any, payable to them, whether paid by reinvestment in additional Shares or in cash.

Dividends paid by the Corporation, other than capital gains dividends, whether paid by reinvestment in additional Shares or in cash, to Shareholders who are individuals are eligible for a dividend tax credit through the gross-up and credit procedure applicable to dividends received from taxable Canadian corporations, including the enhanced gross-up and tax credit available for designated eligible dividends. Some or all of the dividends paid by the Corporation may qualify as eligible dividends. Such dividends paid to corporate Shareholders generally are deductible in computing their taxable income, but may be subject to refundable Part IV tax depending on the particular circumstances of each corporate Shareholder.

The Corporation may also make distributions to its Shareholders of net realized capital gains by way of capital gains dividends. Capital gains dividends paid to Shareholders will be treated as realized capital gains by such Shareholders and will be subject to the general rules relating to the taxation of capital gains, which are described below.

Where a Shareholder redeems or otherwise disposes of, or is deemed to dispose of, Shares, generally a capital gain (or a capital loss) will be realized to the extent that the proceeds of disposition of the Shares exceed (or are exceeded by) the aggregate of the adjusted cost base to the Shareholder of the Shares and any reasonable costs of disposition. One-half of a capital gain (a "taxable capital gain") must be included in computing the Shareholder's income under the Tax Act, and one-half of a capital loss can be deducted against taxable capital gains, subject to the limits in the Tax Act.

The switch of Shares of the Corporation for the Shares of another Class of the Corporation will not result in a disposition for the purposes of the Tax Act. In certain circumstances, if a Shareholder switches Shares of one Class of the Corporation for another Class, the Corporation may have to pay capital gains dividends so that it can obtain a refund of capital gains taxes.

In certain situations where you dispose of Shares of the Corporation and would otherwise realize a capital loss, the loss will be denied. This may occur if you, your spouse or another person affiliated with you (including a corporation controlled by you) has acquired Shares of the Corporation within 30 days before or after you dispose of your Shares (which are considered to be "substituted property"). In these circumstances, your capital loss may be deemed to be a "superficial loss" and denied. The amount of the denied capital loss will be added to the adjusted cost base for the Shares which are substituted property.

The adjusted cost base of Shares to a Shareholder is, generally, the amount paid for the Shares, minus the capital returned in any distributions, minus the adjusted cost base of Shares previously redeemed. In the case of Shares issued by the Corporation as consideration for the acquisition of securities on a tax-deferred basis, the adjusted cost base of such Shares will be the amount agreed to by the Shareholder and the Corporation in the election relating to such acquisition. A consolidation of Shares, including a consolidation immediately following a dividend,

will not result in a disposition of Shares for tax purposes. The aggregate adjusted cost base for your Shares will not change as a result of consolidation, but the adjusted cost base per Share will increase. Shareholders should keep detailed records of the purchase costs, sales charges and dividends or distributions related to their Shares.

Individuals may be subject to an alternative minimum tax. Capital gains and taxable dividends may give rise to liability for such minimum tax.

## **CERTAIN RISK FACTORS**

An investment in a Class involves significant risks. Subscribers should consider the following risk factors in evaluating the merits and suitability of an investment in a Class. The following does not purport to be a summary of all the risks associated with an investment in the Classes. Rather, the following are only certain risks to which the Classes are subject.

### **GENERAL RISKS OF THE CLASSES**

There is not now, and there is not likely to develop, any market for the resale of the Shares. The Shares have not been qualified for sale by prospectus under the securities laws of any of the Offering Jurisdictions. Accordingly, Shares may not be transferred unless appropriate prospectus exemptions from applicable securities laws are available and the transferee is an eligible investor.

The Classes are not retail mutual funds and therefore are not subject to the restrictions and provisions contained in NI 81-102. Shareholders do not have voting rights.

### **INVESTMENT RISK**

The value of Shares and any income and gains associated with them can fluctuate significantly and may be quite volatile. Subscribers should be aware that they may not achieve their anticipated returns and may, in fact, suffer significant loss.

### **EQUITY RISK**

The Classes invest in equity securities (also called stocks or shares). The value of the Classes will be affected by changes in the market price of those securities. The securities business is speculative, prices are volatile and market movements are difficult to predict. The price of a stock is affected by individual company developments and by general economic and financial conditions in those countries where the issuer of the stock is located or where the stock is listed for trading.

### **FOREIGN SECURITY RISK**

Some Classes invest a substantial portion of their assets in foreign securities. The value of foreign securities may be influenced by foreign government policies, lack of information about foreign companies, political or social instability and the possible levy of foreign withholding tax. There may be lower standards of government supervision and regulation in foreign financial markets. Foreign stock markets may also be less liquid and more volatile. In addition, the securities markets of many

countries have at times in the past moved relatively independently of one another due to different economic, financial, political and social factors. This may reduce gains which a Class has derived from movements in a particular market. A Class that holds foreign securities may have difficulty enforcing legal rights in jurisdictions outside Canada.

### **FOREIGN CURRENCY RISK**

The Canadian dollar value of a Class's investments in foreign securities is affected by changes in the value of the Canadian dollar relative to those securities. While Croft Financial Group may employ currency hedging when it believes that currency exposure presents significant risk, there is no assurance that it will do so in any particular circumstance. Premiums paid for over-the-counter currency options purchased by a Class may reduce a Class's return.

### **INDUSTRY AND GEOGRAPHIC CONCENTRATION**

Each Portfolio Advisor's investment philosophy may cause the applicable Class to focus on specific industries and to avoid others. Moreover, each Portfolio Advisor will be authorized to allocate the assets of the applicable Class without limitation among geographic regions and individual countries. As a result, the Classes may have greater exposure to particular industries, countries, or regions than other similar Classes.

### **SHORT SALE EQUITY POSITIONS AND LEVERAGING**

A Class may also employ leveraging (i.e., the use of borrowed Classes or securities) as an inherent tool in its investment strategy. While the use of leverage can increase the rate of return, it can also increase the magnitude of loss in unprofitable positions beyond the loss which would have occurred if there had been no borrowings. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the securities purchased or carried, and will be lost in the event of a decline in the market value of such securities. Leveraging will thus tend to magnify the losses or gains from investment activities.

Croft Financial Group will limit leveraging to 10% of the aggregate (at the time of incurring leverage) of the Gross Asset Value of the Class.

A Class's anticipated use of short-term margin borrowings subjects the Class to additional risks, including the possibility of a "margin call" pursuant to which the Class must either deposit additional capital with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden, precipitous drop in the value of the Class's assets, the Class may not be able to liquidate assets quickly enough to pay off its margin debt.

### **PORTFOLIO TURNOVER**

The operation of a Class may result in a high annual portfolio turnover rate. The Classes have not placed any limit on the rate of portfolio turnover and portfolio securities may be sold without regard to the time they have been held when, in the opinion of Portfolio Advisor, investment considerations warrant such action. A high rate of portfolio turnover involves correspondingly greater expenses than a lower

rate (e.g., greater transaction costs such as brokerage fees) and may involve different tax consequences.

### **COUNTERPARTY RISK**

Due to the nature of some of the investments that a Class may undertake, a Class relies on the ability of the counterparty to the transaction to perform its obligations. In the event that a counterparty fails to complete its obligations, the Class bears the risk of loss of the amount expected to be received under options, forward contracts or securities lending agreements in the event of the default or bankruptcy of a counterparty.

### **INTEREST RATE FLUCTUATIONS**

In the case of interest rate sensitive securities, the value of a security may change as the general level of interest rates fluctuates. When interest rates decline, the value of such securities can be expected to rise. Conversely, when interest rates rise, the value of such securities can be expected to decline.

### **AMERICAN DEPOSITORY SECURITIES AND RECEIPTS**

In some cases, rather than directly holding securities of non-Canadian and non-U.S. companies, a Class may hold these securities through an American Depository Security and Receipt (an "ADR"). An ADR is issued by a U.S. bank or trust company to evidence its ownership of securities of a non-U.S. corporation. The currency of an ADR may be U.S. dollars rather than the currency of the non-U.S. corporation to which it relates. The value of an ADR will not be equal to the value of the underlying non-U.S. securities to which the ADR relates as a result of a number of factors.

These factors include the fees and expenses associated with holding an ADR, the currency exchange rate relating to the conversion of foreign dividends and other foreign cash distributions into U.S. dollars, and tax considerations such as withholding tax and different tax rates between the jurisdictions. In addition, the rights of the Class, as a holder of an ADR, may be different than the rights of holders of the underlying securities to which the ADR relates, and the market for an ADR may be less liquid than that of the underlying securities. The foreign exchange risk will also affect the value of the ADR and, as a consequence, the performance of the Class if it holds the ADR.

### **LEGAL, TAX AND REGULATORY RISKS**

Legal, tax and regulatory changes to laws or administrative practice could occur during the term of a Class which may adversely affect the Class. For example, the regulatory or tax environment for derivative instruments is evolving, and changes in the regulation or taxation of derivative instruments may adversely affect the value of derivative instruments held by a Class and the ability of the Class to pursue its investment strategies. Interpretation of the law or administrative practice may affect the characterization of a Class's earnings as capital gains or income which may increase the level of tax borne by investors as a result of increased taxable distributions from the Class. The Class may be subject to tax under Part XII.2 of the Tax Act in certain circumstances which, in particular, will adversely affect those Shareholders that are "designated beneficiaries". See "Certain Income Tax Considerations".

## **LOW RATED OR UNRATED DEBT OBLIGATIONS**

A portion of a Class's portfolio may consist of instruments that have a credit quality rated below investment grade by internationally recognized credit rating organizations or may be unrated. These securities involve significant risk exposure as there is uncertainty regarding the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations. Low rated and unrated debt instruments generally offer a higher current yield than that available from higher-grade issuers, but typically involve greater risk.

## **CONFLICTS OF INTEREST**

Croft Financial Group may be subject to various conflicts of interest due to the fact that Croft Financial Group and its advisors are engaged in a wide variety of management, advisory and other business activities unrelated to the Class's undertaking (some of which may compete with the Class's investment activities).

The Portfolio Advisor's investment decisions for a Class will be made independently of those made for the other clients of Croft Financial Group and its advisors and independently of its own investments. However, on occasion, Portfolio Advisors in any of the Classes may make the same investment that Croft Financial Group has executed for one or more of its other clients or clients of its advisors. Where a Class and one or more of the other clients of Croft Financial Group or its advisors are engaged in the purchase or sale of the same security, the transaction will be effected on a fair basis.

The Portfolio Advisors and other entities with which the Portfolio Advisors are affiliated have portfolio management and/or advisory responsibilities and contracts with other persons and companies. The Portfolio Advisors and such other entities may make investment decisions for, or provide advice to, such other persons and companies which differ from investment decisions made for, or advice given to, the Classes even though the investment objectives of the Classes and such other persons or companies may be the same or similar. The Portfolio Advisors will act in good faith and follow a policy of allocating over a period of time investment opportunities to the Classes on a basis which is fair and equitable to the Classes relative to investment opportunities allocated to other persons or companies for which the Portfolio Advisor is responsible

## **USE OF A PRIME BROKER TO HOLD ASSETS**

Some or all of a Class's assets may be held in one or more margin accounts due to the fact that the Class may use leverage and engage in short selling. The margin accounts may provide less segregation of customer assets than would be the case with a more conventional custody arrangement. The prime broker may also lend, pledge or hypothecate the Class's assets in such accounts, which may result in a potential loss of such assets. As a result, the Class's assets could be frozen and inaccessible for withdrawal or subsequent trading for an extended period of time if the prime broker experiences financial difficulty. In such case, the Class may experience losses due to insufficient assets at the prime broker to satisfy the claims of its creditors, and adverse market movements while its positions cannot be traded. In addition, the prime broker is unlikely to be able to provide leverage to the Class, which would affect adversely the Class's returns.

## **BROAD AUTHORITY OF THE PORTFOLIO ADVISORS**

The Portfolio Advisors have broad discretion over the conduct of a Class's undertaking, selection of the specific companies in which the Class invests and over the types of transactions in which the Class engages.

## **REGULATORY RISK**

Some industries, such as financial services, healthcare and telecommunications, are heavily regulated. Investments in these sectors may be substantially affected by changes in government policy, such as increased regulation, ownership restrictions, deregulation or reduced government expenditures within a specific sector. The value of a Class that buys these investments may rise and fall substantially due to changes in these factors.

## **RISKS ASSOCIATED WITH SECURITIES LENDING, REPURCHASE AND REVERSE REPURCHASE TRANSACTIONS**

The Classes may engage in securities lending, repurchase and reverse repurchase transactions in order to earn additional returns. Securities lending is an agreement whereby a Class lends securities through an authorized agent in exchange for a fee and some form of acceptable collateral. Under a repurchase transaction, a Class agrees to sell securities for cash while, at the same time, assumes an obligation to repurchase the same securities for cash (usually at a higher price) at a later date. A reverse repurchase transaction is an agreement whereby a Class buys securities for cash while, at the same time, agrees to resell the same securities (usually at a higher price) at a later date.

The risks associated with securities lending, repurchase and reverse repurchase transactions arise when the counterparty to such transaction defaults under the investment agreement and the Class is forced to make a claim in order to recover its investment. In securities lending or a repurchase transaction, the Class could incur a loss if the value of the securities loaned or sold by the Class has increased in value relative to the value of the collateral held by the Class. In the case of a reverse repurchase transaction, the Class could incur a loss if the value of the securities purchased by the Class decreases in value relative to the value of the collateral held by the Class.

The Classes generally manage the risks associated with these types of investments by:

- ◆ holding collateral equal to a minimum of 102% of the market value of the securities loaned (for securities lending transactions), sold (for repurchase transactions) or purchased (for reverse repurchase transactions) as the case may be;
- ◆ adjusting the amount to the collateral each business day to ensure the collateral's value relative to the market value of the securities loaned, sold or purchased remains within a 102% limit;
- ◆ limiting the aggregate value of all securities loaned or sold through securities lending and repurchase transactions to under 50% of the total assets (without including the collateral) of the Class.

## **MATERIAL CONTRACTS**

Except for the Management Agreement, the Sub-Advisory Agreements, the Custodian Agreement and Registrar and Transfer Agent Agreement, which are referred to in this Offering Memorandum, no material contract has been entered into by or on behalf of the Corporation.

## **PROMOTER**

Croft Financial Group may be said to be the promoter of the Corporation and Classes, having taken the initiative in their establishment.

## **PORTFOLIO ADVISORS**

- ◆ **Avenue Investment Management Inc.** provides portfolio advisory services to Class A-5 (Avenue Bond) and Class E-5 (Avenue Total Return Equity).
- ◆ **Barrantagh Investment Management Inc.** provides portfolio advisory services to Class B-5 (Barrantagh Fixed Income) and Class F-5 (Barrantagh Total Equity).
- ◆ **Rondeau Capital Inc.** provides portfolio advisory services to Class D-5 (Rondeau Growth Equity).
- ◆ **Leon Frazer & Associates Inc.** provides portfolio advisory services to Class C-5 (Leon Frazer Canadian Dividend).

## **REGISTRAR AND TRANSFER AGENT**

The registrar and transfer agent of the Corporation is The Investment Administration Solution Inc., 330 Bay Street, Suite 400, Toronto, Ontario, M5H 2S6.

## **CUSTODIAN**

The custodian of assets of the Classes is NBCN Inc., 250 Yonge Street, Suite 1900, Toronto Ontario, M5B 2L7.

## **AUDITORS**

The auditors of the Corporation and Classes are Moore Stephens Cooper Molyneux LLP, 701 Evans Avenue, 8<sup>th</sup> Floor, Toronto, Ontario, M9C 1A3.

## **STATUTORY AND CONTRACTUAL RIGHTS OF ACTION**

Securities legislation in certain provinces of Canada provide purchasers with the right to withdraw from an agreement to purchase securities. In several of the provinces, the legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages, if this Offering Memorandum contains a misrepresentation, and in some provinces, certain other rights. The rights of action and rescission available or offered to purchasers in each of the Offering Jurisdictions are described in Schedule "A" hereto.

## **SCHEDULE "A"**

### **PURCHASERS' RIGHTS OF ACTION FOR DAMAGES OR RESCISSION**

The following statutory or contractual rights of action for damages or rescission will apply to a purchase of Shares. The applicable securities legislation in certain jurisdictions provides purchasers, or requires purchasers be provided, with remedies for rescission or damages, or both, if this Offering Memorandum or any amendment to it contains a misrepresentation. However, these remedies must be exercised within the time limits prescribed. Purchasers should refer to the applicable legislative provisions for the complete text of these rights and consult with a legal advisor.

For the purposes of the following, "Misrepresentation" generally means an untrue statement of a material fact, or an omission to state a material fact that is required to be stated, or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

#### **ONTARIO**

If this Offering Memorandum contains a Misrepresentation, purchasers resident in Ontario who purchase Shares during the period of distribution, without regard to whether the purchaser relied on the Misrepresentation (if it was a Misrepresentation at the time of purchase) will have a statutory right of action for damages, or, while still the owner of the Shares, for rescission, against the Corporation. This statutory right of action is subject to the following:

- a) if the purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against the Corporation;
- b) no action may be commenced to enforce a right of action for rescission more than 180 days after the date on which payment for the Shares is made by the purchaser;
- c) no action may be commenced to enforce a right of action for damages after the earlier of
  - 1) 180 days after the purchaser of the Shares first had knowledge of the facts giving rise to the cause of action and
  - 2) three years after the date on which payment for the Shares is made by the purchaser;
- d) the Corporation will not be liable if it proves that the purchaser purchased the Shares with knowledge of the Misrepresentation;
- e) in the case of an action for damages, the Corporation will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the Shares as a result of the Misrepresentations relied upon; and

- f) in no case will the amount recoverable in such action exceed the price at which the Shares were sold to the purchaser.
- g) The rights described above are applicable to a purchaser resident in Ontario unless the purchaser is:
- h) a Canadian financial institution, meaning either:
  - 1) an association governed by the *Cooperative Credit Associations Act* (Canada) or a central cooperative credit society for which an order has been made under section 473(1) of that Act; or
  - 2) a bank, loan corporation, trust company, trust corporation, insurance company, treasury branch, credit union, caisse populaire, financial services corporation or league that, in each case, is authorized by an enactment of Canada or a jurisdiction of Canada to carry on business in Canada or a jurisdiction in Canada;
- i) a Schedule III bank, meaning an authorized foreign bank named in Schedule III of the Bank Act (Canada);
- j) the Business Development Bank of Canada incorporated under the Business Development Bank of Canada Act (Canada); or
- k) a subsidiary of any person referred to in paragraphs (a), (b) or (c), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by the directors of the subsidiary.

The statutory rights of action described above are in addition to and without derogation from any other right or remedy that the purchaser might have at law.

#### **ALBERTA (\$150,000 MINIMUM EXEMPTION)**

If a purchaser has purchased Shares in reliance on the \$150,000 minimum exemption in NI 45-106, where this Offering Memorandum or a record incorporated by reference in or deemed incorporated into the Offering Memorandum or any amendment to the Offering Memorandum contains a Misrepresentation, every purchaser in Alberta to whom the Offering Memorandum was delivered has certain statutory rights. Each such purchaser shall be deemed to have relied on the Misrepresentation if it was a Misrepresentation at the time of purchase, and has a right of action for damages against the Corporation and each person or company who signed the Offering Memorandum, or, alternatively, for rescission, against the Corporation.

This right of action is subject to the following limitations:

- a) no person or company will be liable if the person or company proves the purchaser purchased the Shares with the knowledge of the Misrepresentation;
- b) no person or company, other than the Corporation, will be liable if the person or company provides that the Offering Memorandum was sent to the purchaser without the person's or company's knowledge or consent and that upon becoming aware of its being sent, the person or company gave

reasonable notice to the Corporation that it was sent without the knowledge or consent of the person or company;

- c) no person or company, other than the Corporation, will be liable if the person or company proves that, on the person or company becoming aware of the Misrepresentation in the Offering Memorandum, the person or company withdrew the person or company consent to the Offering Memorandum and gave reasonable notice to the Corporation of the withdrawal and the reason for it;
- d) no person or company, other than the Corporation, will be liable if, with respect to any part of the Offering Memorandum purporting to be made on the authority of an expert or purporting to be a copy of, an extract from, a report, opinion or statement of an expert, the person or company proves that the person or company had no reasonable grounds to believe and did not believe that:
  - 1) there has been a Misrepresentation, or
  - 2) the relevant part of the Offering Memorandum:
    - i. did not fairly represent the report, opinion or statement of the expert, or
    - ii. was not a fair company of, or an extract from, the report, opinion or statement of the expert;
- e) no person or company, other than the Corporation, will be liable if, with respect to any part of the Offering Memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company:
  - 1) did not conduct an investigation sufficient to provide reasonable grounds for a belief that there had been no Misrepresentation, or
  - 2) believed there had been a Misrepresentation;
- f) in an action for damages, the defendant will not be liable for all or any portion of those damages that the defendant proves does not represent the depreciation in value of the Shares as a result of the Misrepresentation; and
- g) in no case will the amount recoverable exceed the price at which the Shares were sold to the purchaser.

No such action may be commenced to enforce the right of action for rescission or damages:

- a) In the case of rescission, not later than 180 days from the day of the transaction that gave rise to the right of action, or
- b) in the case of damages, not later than the earlier of:

- 1) 180 days from the day that the purchaser first had knowledge of the facts giving rise to the right of action, or
- 2) three years from the day of the transaction that gave rise to the right of action.

## **MANITOBA**

If the Offering Memorandum or a record incorporated by reference in or deemed to be incorporated by reference into the Offering Memorandum is delivered to a purchaser resident in Manitoba and contains a Misrepresentation that was a Misrepresentation at the time of purchase, the purchaser will be deemed to have relied upon the Misrepresentation and will have a statutory right of action for damages against the Corporation and every person or company who signed the Offering Memorandum or, alternatively, the purchaser, may elect instead to exercise a statutory right of rescission against the Corporation. If the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages.

This right of action is subject to the following limitations:

- a) no person or company will be liable if it proves that the purchaser had knowledge of the Misrepresentation;
- b) in the case of an action for damages, the defendant will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the Shares as a result of the misrepresentation; and
- c) in no case will the amount recoverable in any action exceed the price at which the Shares were offered under the Offering Memorandum.

In addition, a person or company, other than the Corporation, will not be liable if that person or company proves:

- a) that the Offering Memorandum was sent to the purchaser without the person's or company's knowledge or consent, and that, after becoming aware that it was sent, the person or company promptly gave reasonable notice to the Corporation that it was sent without the person's or company's knowledge and consent;
- b) if the person or company proves that after becoming aware of the Misrepresentation, the person or company withdrew the person's or company's consent to the Offering Memorandum and gave reasonable notice to the Corporation of the withdrawal and the reason for it;
- c) if, with respect to any part of the Offering Memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, an expert's report, opinion or statement, the person or company proves that the person or company did not have any reasonable grounds to believe and did not believe that:

- 1) there had been a Misrepresentation, or

- 2) the relevant part of the Offering Memorandum,
  - i. did not fairly represent the expert's report, opinion or statement, or
  - ii. was not a fair copy of, or an extract from, the expert's report, opinion or statement; or
- d) with respect to any part of the Offering Memorandum not purporting to be made on an expert's authority and not purporting to be a copy of, or an extract from, an expert's report, opinion or statement, unless the person or company:
  - 1) did not conduct an investigation sufficient to provide reasonable grounds for a belief that there had been no Misrepresentation, or
  - 2) believed that there had been a Misrepresentation.

No such action may be commenced to enforce the right of action for rescission or damages more than:

- a) 180 days after the day of the transaction that gave rise to the cause of action, in the case of an action for rescission; or
- b) the earlier of:
  - 1) 180 days after the day that the plaintiff first had knowledge of the facts giving rise to the cause of action, or
  - 2) two years after the day of the transaction that gave rise to the cause of action, in any other case.

## **SASKATCHEWAN**

Section 138 of The Securities Act, 1988 (Saskatchewan), as amended (the "Saskatchewan Act") provides that where an offering memorandum (such as this Offering Memorandum) or any amendment to it is sent or delivered to a purchaser and it contains a Misrepresentation, a purchaser who purchases Shares covered by the Offering Memorandum or any amendment to it is deemed to have relied upon that Misrepresentation, if it was a Misrepresentation at the time of purchase, and has a right of action for rescission against the Corporation or a selling security holder on whose behalf the distribution is made or has a right of action for damages against:

- a) the Corporation or a selling security holder on whose behalf the distribution is made;
- b) every promoter and director of the Corporation or the selling security holder, as the case may be, at the time the Offering Memorandum or any amendment to it was sent or delivered;

- c) every person or company whose consent has been filed respecting the offering, but only with respect to reports, opinions or statements that have been made by them;
- d) every person who or company that, in addition to the persons or companies mentioned in (a) to (c) above, signed the Offering Memorandum or the amendment to the Offering Memorandum; and
- e) every person who or company that sells securities on behalf of the Corporation or selling security holder under the Offering Memorandum or amendment to the Offering Memorandum.

Such rights of rescission and damages are subject to certain limitations including the following:

- a) if the purchaser elects to exercise its right of rescission against the Corporation or selling security holder, it shall have no right of action for damages against that party;
- b) in an action for damages, a defendant will not be liable for all or any portion of the damages that he, she or it proves do not represent the depreciation in value of the Shares resulting from the Misrepresentation relied on;
- c) no person or company, other than the issuer or a selling security holder, will be liable for any part of the Offering Memorandum or any amendment to it not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company failed to conduct a reasonable investigation sufficient to provide reasonable grounds for a belief that there had been no Misrepresentation or believed that there had been a Misrepresentation;
- d) in no case shall the amount recoverable exceed the price at which the Shares were offered; and
- e) no person or company is liable in an action for rescission or damages if that person or company proves that the purchaser purchased the Shares with knowledge of the Misrepresentation.

In addition, no person or company, other than the Corporation or selling security holder, will be liable if the person or company proves that:

- a) the Offering Memorandum or any amendment to it was sent or delivered without the person's or company's knowledge or consent and that, on becoming aware of it being sent or delivered, that person or company gave reasonable general notice that it was so sent or delivered; or
- b) with respect to any part of the Offering Memorandum or any amendment to it purporting to be made on the authority of an expert, or purporting to be a copy of, or an extract from, a report, an opinion or a statement of an expert, that person or company had no reasonable grounds to believe and did not believe that there had been a Misrepresentation, the part of the Offering Memorandum or any amendment to it did not fairly represent the report,

opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

Not all defences upon which we or others may rely are described herein. Please refer to the full text of the Saskatchewan Act for a complete listing.

Similar rights of action for damages and rescission are provided in section 138.1 of the Saskatchewan Act in respect of a Misrepresentation in advertising and sales literature disseminated in connection with an offering of Shares.

Section 138.2 of the Saskatchewan Act also provides that where an individual makes a verbal statement to a prospective purchaser that contains a Misrepresentation relating to the Shares purchased and the verbal statement is made either before or contemporaneously with the purchase of the Shares, the purchaser is deemed to have relied on the Misrepresentation, if it was a Misrepresentation at the time of purchase, and has a right of action for damages against the individual who made the verbal statement.

Section 141(1) of the Saskatchewan Act provides a purchaser with the right to void the purchase agreement and to recover all money and other consideration paid by the purchaser for the Shares if the Shares are sold in contravention of the Saskatchewan Act, the regulations to the Saskatchewan Act or a decision of the Saskatchewan Financial Services Commission.

Section 141(2) of the Saskatchewan Act also provides a right of action for rescission or damages to a purchaser of Shares to whom an Offering Memorandum or any amendment to it was not sent or delivered prior to or at the same time as the purchaser enters into an agreement to purchase the Shares, as required by Section 80.1 of the Saskatchewan Act.

The rights of action for damages or rescission under the Saskatchewan Act are in addition to and do not derogate from any other right which a purchaser may have at law.

Section 147 of the Saskatchewan Act provides that no action shall be commenced to enforce any of the foregoing rights more than:

- a) in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or
- b) in the case of any other action, other than an action for rescission, the earlier of:
  - 1) one year after the plaintiff first had knowledge of the facts giving rise to the cause of action; or
  - 2) six years after the date of the transaction that gave rise to the cause of action.

The Saskatchewan Act also provides a purchaser who has received an amended Offering Memorandum delivered in accordance with subsection 80.1(3) of the Saskatchewan Act has a right to withdraw from the agreement to purchase the Shares by delivering a notice to the person who or company that is selling the Shares, indicating the purchaser's intention not to be bound by the purchase

agreement, provided such notice is delivered by the purchaser within two business days of receiving the amended Offering Memorandum.

The foregoing summaries are subject to the express provisions of the *Securities Act* (Ontario) and the *Securities Act* (Saskatchewan) and the regulations thereunder and reference is made thereto for the complete text of such provisions.

**CONTRACTUAL RIGHTS BRITISH COLUMBIA, ALBERTA ACCREDITED INVESTORS AND QUEBEC**

If this Offering Memorandum together with any amendments to it contains a Misrepresentation, a purchaser in British Columbia or Quebec or an Accredited Investor in Alberta, does not have any statutory rights under applicable securities laws, nor do the securities laws require the Corporation to contractually provide any rights of action for damages or rescission. The Corporation is voluntarily providing purchasers in those provinces with rights of action for damages, or alternatively, for rescission similar to those provided for in the Securities Act (Ontario).