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If you have sold or otherwise transferred all of your Shares in Middlefield Canadian Income - GBP PC, you should hand this document at once to the purchaser or agent through whom the sale or transfer was effected for transmission to the purchaser.

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## **MIDDLEFIELD CANADIAN INCOME - GBP PC**

### **a cell of Middlefield Canadian Income PCC**

*(a protected cell company incorporated with limited liability under the laws of Jersey with registered number 93546)*

**Proposals for the removal of the Swap, the adoption of a new investment objective and investment policy, the transfer of the Company's tax residency from Jersey to the United Kingdom and the adoption of new Articles of Association of the Fund**

**and**

### **Notice of Cell Extraordinary General Meeting and Cell and Company Meeting**

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The Proposals described in this document are conditional on Shareholder approval at a Cell Extraordinary General Meeting and Cell and Company Meeting.

Notice of a Cell Extraordinary General Meeting and a Cell and Company Meeting to be held at 12 noon and 12:05 p.m. respectively on 19 September 2011 at Wests Centre, St Helier, Jersey JE4 8PQ, is set out on pages 28 to 30 of this document.

Shareholders are requested to complete and return the Form of Proxy accompanying this document for use at the Cell Extraordinary General Meeting and Cell and Company Meeting. To be valid, a Form of Proxy must be completed and returned in accordance with the instructions printed thereon so as to be received by Capita Registrars, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible and in any event by no later than 12:05 p.m. on 17 September 2011.

**Your attention is drawn to the section entitled "Action to be taken by Shareholders" on page 11 of this document.**

Collins Stewart Europe Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting for the Fund and is acting for no-one else in connection with the Proposals and will not be responsible to anyone other than the Fund for providing the protections afforded to clients of Collins Stewart Europe Limited nor for providing advice in connection with the Proposals and/or any other matter referred to herein. Collins Stewart Europe Limited is not responsible for the contents of this document.

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## EXPECTED TIMETABLE OF EVENTS

2011

Circular posted	19 August
Latest time and date for receipt of Forms of Proxy	12:05 p.m. on 17 September
Cell Extraordinary General Meeting and Cell and Company Meeting	12 noon and 12:05 p.m. on 19 September
Currency hedge effectively removed*	4 October
Settlement of Swap unwinding and acquisition of securities from CIT Portfolio*	on or around 6 October
Effective Date*	11 October

\*Subject to shareholder approval at the Cell EGM

Each of the times and dates in the expected timetable of events may be extended or brought forward without further notice. If any of the above times and/or dates change, the revised time(s) and/or date(s) will be notified to Shareholders by an announcement through a Regulatory Information Service provider. All references to times are to London times.

## PART I

### LETTER FROM THE CHAIRMAN

#### MIDDLEFIELD CANADIAN INCOME - PCC

*(a protected cell company incorporated with limited liability under the laws of Jersey with registered number 93546)*

#### MIDDLEFIELD CANADIAN INCOME - GBP PC

*Directors:*

Raymond Apsey (*Chairman*)  
Philip Bisson  
W. Garth Jestley  
Nicholas Villiers

*Registered Office:*

PO Box 76  
West Centre  
St Helier  
Jersey JE4 8PQ

19 August 2011

Dear Shareholders

#### **Proposals for the removal of the Swap, the adoption of a new investment objective and investment policy, the transfer of the Company's tax residency from Jersey to the United Kingdom, and the adoption of new Articles of Association of the Fund and the Company**

##### **Introduction**

Further to the Company's announcement on 3 June 2011, I am writing to you in order to seek the approval of Shareholders to simplify the Fund's structure by removing the existing swap arrangements and investing directly in a portfolio of assets predominantly comprising listed Canadian securities. The Board does not believe that the proposed restructuring will have a material economic effect on the Fund and, consequently, subject to unforeseen circumstances the Fund intends to maintain its current dividend rate of five pence per share per annum following the restructuring. Similarly, the existing provisions for a continuation vote to be held in June 2013 will remain in place.

By way of background, the Swap was put in place primarily to achieve efficient currency hedged economic exposure to the Canadian income trust sector. The Company's current structure has most of its assets invested in a sterling Money Market and Bond Portfolio which is used as collateral for the Swap that provides the economic exposure to listed Canadian securities. The Company is incorporated and tax resident in Jersey so that the investment returns from the Swap can be passed through to shareholders in a tax efficient manner. However, as noted in the Fund's annual report published on 18 March 2011, recent changes to the taxation of Canadian income trusts, which came into effect on 1 January 2011, have led to virtually all income trusts, aside from real estate investment trusts (**REITs**), which will remain tax exempt vehicles, changing their legal form to Canadian corporations.

In light of those changes and having consulted the Fund's major shareholders, the Board believes that there is considerable merit in simplifying the Fund's existing structure by removing the Swap. The removal of the Swap would also eliminate the Fund's Sterling/Canadian dollar currency hedge and would crystallise the value of the Cross Currency Margin Differential at the point at which the Swap is terminated. The Board would not propose to hedge the Fund's Canadian dollar exposure following implementation of the Proposals, but reserves the right to do so.

In order to mitigate the impact of Canadian withholding tax which would otherwise apply to the Fund's directly-held portfolio of assets following the restructuring, the Board also proposes that the Company and the Fund become UK tax resident and that the Company seek approval as an investment trust under section 1158 CTA 2010. UK tax residency would allow the Company to utilise the double tax treaty between the UK and Canada, which would reduce the level of withholding tax on Canadian dividends from 25 per cent to 15 per cent.

The implementation of the Proposals requires various changes to be put in place, including the adoption by the Fund of a new investment objective and investment policy to reflect the new structure, and consequential changes to the Company's and the Fund's constitutional documents to enable the Company and the Fund to become UK tax resident and the Company to qualify as an investment trust.

In addition, it is proposed that the Fund's existing management and administration arrangements be restructured in connection with the implementation of the Proposals. At present, Kleinwort Benson (Channel Islands) Corporate Services Limited (**KBCI**) acts as both the Fund's manager and administrator, with Middlefield International Limited (**MIL**) providing investment advisory services to KBCI. Upon the Proposals becoming effective, it is intended that MIL will be appointed pursuant to a new investment management agreement, to act as the Fund's discretionary investment manager in place of KBCI, while KBCI will continue to act as the Fund's administrator pursuant to a new administration agreement. The aggregate quantum of management and administration fees payable directly or indirectly by the Fund will not change as a result of these changes to the management structure. In addition, in order to reflect the change to the nature of the assets held by the Fund, the Fund will appoint RBC Dexia as its new custodian, in place of Kleinwort Benson (Guernsey) Limited.

The Proposals are subject to Shareholder approval. This document therefore contains a notice convening a Cell EGM and Cell and Company Meeting for 19 September 2011 at which the Cell Resolutions and the Cell and Company Resolution will be put to Shareholders.

### **Removal of the Swap**

The Fund does not currently invest directly in Canadian securities, other than a small investment of approximately C\$100,000 in CIT Trust. Instead, through the Swap, it is exposed to the economic performance of CIT Trust's portfolio of equity income securities. The Fund's performance is therefore driven by the performance of the CIT Portfolio, which is managed by Middlefield Limited, the managing trustee of CIT Trust. The Swap is structured to ensure that its value to the Fund does not exceed 20 per cent of the Fund's net assets at any time through a mechanism requiring CIBC, the Swap counterparty, to transfer cash to the Fund should the value of the Swap exceed certain thresholds set out under the Swap Agreement.

As a result of the Canadian tax changes referred to above, virtually all income trusts, aside from REITs, which will remain tax exempt vehicles, have now changed their legal form to Canadian corporations. This means that the key structural reason for investing through the Swap, to achieve efficient economic exposure to the Canadian income trust market, is no longer relevant.

The Directors consider that the removal of the Swap will have the following benefits:

- making it easier for existing and potential investors to understand the Fund and analyse its portfolio and performance;
- removing the additional running costs associated with maintaining the Swap;
- crystallising the value of the cross currency margin differential (**CCMD**), which results from the integral hedging mechanisms contained within the Swap. The value of the CCMD is currently estimated to be approximately 1.3 pence per Share;
- eliminating the credit risk associated with the Swap and the Money Market and Bond Portfolio; and
- removing the need to rebalance the Swap if it would account for more than 20 per cent of the Fund's net assets at any time.

The Swap allows the Fund to receive income returns on the underlying Canadian equities free of withholding tax; this tax would, however, be payable once the Fund holds Canadian securities directly. However, as summarised in Part V of this document, the transfer of tax residency to the United Kingdom and the Company becoming approved as an investment trust under section 1158 CTA 2010 are expected to mitigate the impact of Canadian withholding tax following implementation of the Proposals. The withholding tax liability is countered by the cost savings from which the Fund would benefit by removing the Swap, in particular a fee of 0.5 per cent per annum payable to CIBC on the value of the notional investment in CIT Trust.

The Swap also provides an integral currency hedge against movements between Sterling and the Canadian Dollar. This can have either a positive or negative economic effect on the Fund depending on exchange rate movements. In line with market practice for London listed investment funds investing overseas and following consultation with the Fund's major shareholders, the Board would not propose to hedge the Fund's Canadian dollar exposure following implementation of the Proposals but reserves the

right to do so.

If the Proposals are approved, it is expected that the Swap will be removed on 6 October 2011. On or about 3 October 2011 the Company will realise the Money Market and Bond Portfolio and the proceeds of realisation will be converted into Canadian dollars on or about 4 October 2011; such proceeds will then be held in a segregated client account held with Kleinwort Benson (Guernsey) Limited, the Fund's current custodian, and the Company's Canadian dollar exposure will be substantially unhedged from this point. On 6 October 2011 the proceeds of realisation of the Money Market and Bond Portfolio, together with the balancing sum payable or receivable on the settlement of the Swap (including any value attributable to the CCMD) and any moneys drawn down under any new debt facility which the Board intends to put in place following the passing of the Cell Resolutions, will be applied in acquiring securities from the CIT Portfolio. At this point the Company's Canadian dollar exposure will be entirely unhedged.

The aggregate value of securities that the Company is able to purchase from the CIT Portfolio will be affected by the amount of Canadian dollars that the Company realises from the Money Market and Bond Portfolio, on the amount paid or received on the settlement of the Swap and the amount of any new debt facility put in place by the Company. The exchange rate between Sterling and the Canadian dollar on the date that the Money Market and Bond Portfolio is converted into Canadian dollars and on the date on which the Swap is settled will have an impact on the amount of Canadian dollars available to the Company.

Although the approval of Shareholders is not required to terminate the Swap, the Board believes that it is appropriate to seek such approval and accordingly is proposing Resolution 2 as set out in the Notice of the Cell EGM and the Cell and Company Meeting which shall be proposed as a cell ordinary resolution.

### **Dividend policy**

Subject to unforeseen circumstances, the Fund intends to maintain its current dividend rate of five pence per Share per annum, with dividends of 1.25 pence per Share payable quarterly on the last Business Day in January, April, July and October. These figures are targets only and do not constitute, nor should they be interpreted as, a profit forecast.

Since its launch the Fund has benefited from the fact that its payment obligations under the Swap are fixed at a rate of Sterling LIBOR minus 29 basis points, and this attractive rate is reflected in the CCMD described above. This factor, together with the fact that the payment is fixed in Sterling, has contributed positively to the amount of net income from which the Fund has paid its dividends. Currently, the CCMD has an estimated value of approximately 1.3 pence per Share which will be crystallised as part of a cash payment upon the early termination of the Swap pursuant to the Proposals. If the Proposals are not implemented, the value of the CCMD would reduce to zero as the Swap termination date of 28 June 2013 approaches. In addition, from that date the Fund would no longer be able to benefit from the attractive rates provided under the current Swap and would, if wishing to preserve the current structure, need to put in place a new swap, which would reflect the then prevailing Sterling/Canadian Dollar interest and exchange rates. In addition, if the Company were to put in place a new swap contract in 2013, it would have to pay a fee to the swap counterparty reflecting the then market rates. Based on current indicative swap rates, the Manager would expect the fee payable to a new swap counterparty to be higher than the current fee of 0.5 per cent, which is payable to CIBC on the notional value of the CIT Trust Portfolio.

As at 16 August 2011, the amount realised on the crystallisation of the value of the CCMD pursuant to the Proposals is expected to cover any shortfall in net income from the Fund's portfolio of Canadian securities to maintain the current dividend policy in the period to 28 June 2013, when the Swap would have terminated. Going forward, the Fund has significant reserves which may be distributed by way of dividend should the need arise.

### **Amendment of the investment objective and policy**

The Fund's current investment objective and policy reflect the use of the Swap and envisage the investment of the Fund's assets predominantly in a portfolio consisting of cash, short term cash investments (including CDs) and gilts which is used as collateral for the Fund's obligations under the Swap.

The Proposals, if implemented, will mean that the Fund will invest predominantly in the securities of companies and REITs domiciled in Canada and listed on a Canadian Stock Exchange, initially through the acquisition of securities from the CIT Portfolio as described above. In order to do this, the Fund must

adopt a new investment objective and policy; the principal changes to the existing policy being the removal of the currency hedging, the adoption of investment restrictions intended to ensure risk spreading in the portfolio and the ability for the Fund to use gearing on a long term basis. The text of the proposed new investment objective and policy is set out in full in Part II of this document. In accordance with the Listing Rules, the adoption of the new investment objective and policy requires shareholder approval.

The new investment policy also contains a new borrowing policy. The Fund's current borrowing policy is that it may, in limited circumstances, borrow for short term purposes including funding the redemption of Shares and for the purposes of efficient portfolio management only. However the existing borrowing policy does not permit the use of the Fund's borrowing powers to make long term investments. It should be noted that gearing is currently employed at the level of CIT Trust, which may borrow up to 25 per cent of its total assets for various purposes, including purchasing additional securities for its portfolio and funding redemptions.

Under the proposed new borrowing policy, the Fund has power to borrow up to 25 per cent of the value of its total assets at the time of drawdown. In the normal course of events, and subject to Board oversight, the Fund is expected to employ gearing in the range of 0 to 20 per cent of the value of its total assets in order to enhance returns. The new borrowing policy will require an amendment to the existing Fund Articles (which currently prohibit borrowing for the purpose of long-term investments).

The adoption of the new investment objective and investment policy (including the new borrowing policy) is conditional on the passing of Resolution 3 at the Cell EGM. If any of the Cell Resolutions are not passed none of the Proposals will be implemented.

### **Continuation Vote**

The existing articles of association of the Fund contain provisions requiring a continuation vote at the annual general meeting of the Fund due to occur in 2013. This requirement will not be affected by the Proposals. Accordingly, the Directors shall procure that, at the 2013 annual general meeting of the Fund, an ordinary resolution is proposed to the effect that the Fund shall continue in existence on terms to be proposed by the Directors. If at that meeting the relevant ordinary resolution is not passed, the Directors shall within four months of the meeting convene an extraordinary general meeting of the Fund at which alternative proposals by the Directors regarding the future of the Fund shall be put to Shareholders.

### **Changes to the composition of the Board**

In order for the Company and the Fund to transfer their tax residency from Jersey to the United Kingdom, it is essential that with effect from the Effective Date central control and management of the Company and the Fund are exercised in the United Kingdom. As part of this process, it is proposed that an additional non-executive Director, Thomas Grose, be appointed to the Board. Mr Grose is a UK resident and a summary of his previous experience is set out below:

#### ***Thomas Grose (aged 71)***

Following service with the United States Army, Mr Grose began his career in finance with Citibank in New York, where he rose to become an Assistant Vice President. After a spell as Vice President - Finance and Chief Financial Officer with Great American Industries, Inc., he joined Bankers Trust Company, where he spent 18 years variously in New York, London and Tunisia. Since 1991, Mr Grose has worked for Stock Market Index International, a company that he established in the UK, which provides proprietary research to asset managers, hedge funds and other financial institutions.

The appointment of Mr Grose as an additional director of the Company has been approved by a resolution of the Board dated 18 August 2011. However, this appointment is conditional on all the Cell Resolutions being passed at the Cell Extraordinary General Meeting, and the Cell and Company Resolution being passed at the Cell and Company Meeting and is also subject to the approval of the JFSC. Subject to these conditions being met, Mr Grose's appointment as a Director will take effect on the Effective Date.

In addition to the appointment of Mr Grose, all meetings of the Board will be held in the United Kingdom with effect from the Effective Date. Accordingly, I intend to stand down as Chairman, although I will continue in office as a non-executive director, and Nicholas Villiers, who is UK resident, has agreed to become Chairman with effect from the Effective Date.

## **Adoption of new articles of association**

In connection with the transfer of the Company's and the Fund's tax residency to the United Kingdom and the requirement that central management and control of the Company and the Fund be exercised in the United Kingdom, it is proposed that the Company and the Fund will each adopt new articles of association which will state that no meeting of the Board or any committee of the Board will be quorate unless a majority of Directors (including the chairman of the relevant meeting) is in the United Kingdom. In addition, it is proposed that the quorum requirements for general meetings of the Fund be changed to two shareholders present in person or by proxy, in line with many UK investment companies. The relevant amendments to the articles are set out in Part IV of this document.

In addition, in order to qualify as an investment trust (as described below under the heading "Taxation"), the rights attaching to the Management Shares in the capital of the Company and the Fund, all of which are held by Kleinwort Benson (Channel Islands) Corporate Services Limited, need to be amended so that such shares are not classified as "ordinary share capital" for the purposes of section 1158 CTA 2010. The Management Shares will continue to have very limited economic rights following the adoption of the New Fund Articles and the proposed rights attaching to the Management Shares are set out in Part IV of this document. In addition, the distribution as dividends of surpluses arising from the realisation of investments must be prohibited.

The adoption of the new articles of association of the Company has been approved by a written resolution of the sole shareholder of the Company dated 18 August 2011 but is subject to the passing of the Cell and Company Resolution set out in the Notice of the Cell EGM and Cell and Company Meeting which shall be proposed as a Cell and Company Resolution. If these conditions are satisfied, the new articles of association of the Company will come into effect on the Effective Date.

The adoption of the New Fund Articles is subject to the passing of Resolution 4 set out in the Notice of the Cell EGM and Cell and Company Meeting which shall be proposed as a cell special resolution. If the Cell Resolutions are passed, the New Fund Articles will be adopted with effect from the Effective Date.

## **Taxation**

The Fund has been advised that, following the Effective Date and the migration of the Company's and the Fund's tax residency to the United Kingdom, the Company will (i) be entitled to the benefit of the UK/Canada Tax Treaty; and (ii) will be able to qualify as an investment trust under section 1158 CTA 2010.

The United Kingdom and Canadian tax treatment of the Fund and Shareholders is summarised in Part V of this document.

## **Restructuring the existing management, administration and custody arrangements**

The Fund's investment management, administration and custody arrangements were put in place when the Fund was launched in 2006 and reflect the current structure of indirect investment through the Swap. In connection with the implementation of the Proposals, it is proposed that the existing arrangements should be restructured as follows:

### *Investment Management*

KBCI currently acts as both the Fund's manager and administrator pursuant to the Management and Administration Agreement, and as such is responsible for the day-to-day central administration, records and management of the Fund's assets, with MIL providing investment advisory services to it pursuant to the Investment Advisory Agreement. KBCI receives a management and administration fee payable by the Fund quarterly in arrear at a rate of 0.10 per cent per annum of the average Net Asset Value of the Fund calculated over the relevant quarter period and MIL receives an investment advisory fee payable by the Fund calculated at the same rate of 0.10 per cent and on the same basis.

The CIT Trust is managed by Middlefield Limited, with Middlefield Capital Corporation providing investment advice to Middlefield Limited. Middlefield Limited receives a management fee out of the trust property of the CIT Trust quarterly in arrear at a rate of 0.60 per cent per annum of the average net asset value of the Trust calculated over the relevant quarter period. The fee is calculated and paid in Canadian Dollars. The fee currently payable to Middlefield Limited by CIT Trust equates to 0.75 per cent. of the Fund's Net Asset Value, using the unaudited value of the CIT Trust, the Net Asset Value of the Fund and



the Sterling/Canadian Dollar exchange rate as at close of business in London on 16 August 2011. The rate of 0.75 per cent. is higher than 0.6 per cent. by virtue of the currency hedge embedded in the Swap, which results in the net assets under management in CIT Trust exceeding the Net Asset Value of the Fund as at the date of this document. This is also expected to be the case on the Effective Date.

On implementation of the Proposals, it is proposed that the Management and Administration Agreement and the Investment Advisory Agreement will be terminated and that MIL will be appointed by the Fund to act as its discretionary investment manager pursuant to the new Investment Management Agreement. The simplification of the Company's structure pursuant to the Proposals is not intended to result in a change in the fees paid to the Middlefield group.

Accordingly, under the new Investment Management Agreement, from the date of the termination of the Swap until 28 June 2013 (when the Swap would otherwise have expired) MIL will receive a management fee payable by the Fund quarterly in arrear on the average Net Asset Value of the Fund calculated over the relevant quarter period at a rate fixed on the Effective Date as being that which would provide the same quantum of fees as is payable by the Fund (0.1 per cent. per annum) and CIT Trust under the current arrangements, calculated using the value of the CIT Trust portfolio immediately prior to termination of the Swap and prevailing exchange rates at that time.

Such fee will not in any event exceed a rate of 0.90 per cent. per annum of the average Net Asset Value of the Fund calculated over the relevant quarter period. Following 28 June 2013, the management fee will be payable quarterly in arrear at a rate of 0.70 per cent per annum of the average Net Asset Value of the Fund calculated over the relevant quarter period. It is expected that MIL will delegate its investment management responsibilities under the new Investment Management Agreement to Middlefield Capital Corporation and that MIL will pay Middlefield Capital Corporation's fee out of its own management fee.

In accordance with the AIC SORP, it is intended that the management fee and any debt finance costs incurred by the Fund will be charged as to 60 per cent to the capital account and as to 40 per cent to the revenue account in line with the Directors' expectations as to the returns, in the form of income and capital gains, from the Fund's investment portfolio.

#### *Administration*

KBCI will continue to act as the Fund's administrator under the terms of the new Administration Agreement. Under the Administration Agreement, KBCI will receive an administration fee payable by the Fund quarterly in arrear at a rate of 0.10 per cent per annum of the average Net Asset Value of the Fund calculated over the relevant quarter period.

KBCI will continue to provide secretarial services to the Company on the terms of the existing secretarial agreement.

The restructuring of the management and administration arrangements described above are not expected to result in any overall increase in the aggregate fees currently paid to the service providers to the Fund and the CIT Trust which are either directly or, through the Swap, indirectly borne by the Fund.

#### *Custody*

Kleinwort Benson (Guernsey) Limited (**KBGL**) is currently the custodian of the Fund's assets, which are largely comprised of the Money Market and Bond Portfolio. Following the implementation of the Proposals, the Fund's assets will predominantly comprise direct holdings of Canadian securities and, as a result, the Fund will require a Canadian custodian. The Fund has therefore agreed with KBGL to terminate its appointment under the existing custody agreement and has appointed RBC Dexia Investor Services to act as its new custodian, conditional on the implementation of the Proposals and the consent of the JFSC. The appointment of RBC Dexia as the Fund's custodian is also conditional on the passing by Shareholders of Resolution 4 to be proposed at the Cell EGM. The appointment of RBC Dexia will take effect on the date that the Swap is terminated.

The new Investment Management Agreement and the new Administration Agreement will take effect on the Effective Date. Further details in relation to both agreements are set out in Part III of this document.

## **The Cell Extraordinary General Meeting**

Each of the Proposals described in this document is conditional on the passing of all the Cell Resolutions at the Cell Extraordinary General Meeting and the passing of the Cell and Company Resolution at the Cell and Company Meeting.

The Cell Extraordinary General Meeting will be held at 12 noon on 19 September 2011 at Wests Centre, St Helier, Jersey JE4 8PQ. The business to be considered at the Cell Extraordinary General Meeting is contained in the notice convening the Cell Extraordinary General Meeting and Cell and Company Meeting on pages 28 to 30 of this document.

The first resolution (**Resolution 1**) will be proposed as a cell ordinary resolution and will authorise the Board to transfer the tax residency of the Company and the Fund from Jersey to the United Kingdom as described in this document and the entry by the Fund into the New Material Contracts. This Resolution is conditional on the passing of Resolution 5 and the passing of the Cell and Company Resolution.

The second resolution (**Resolution 2**) will be proposed as a cell ordinary resolution and will authorise the termination of the Swap. This Resolution is conditional on the passing of Resolutions 1, 3, 4 and 5.

The third resolution (**Resolution 3**) will be proposed as a cell ordinary resolution and will approve the adoption of the new investment objective and the new investment policy set out in Part II of this document. This Resolution is conditional on the passing of Resolutions 1, 2, 4 and 5.

The fourth resolution (**Resolution 4**) will be proposed as a cell ordinary resolution and will approve the appointment of RBC Dexia as the Fund's custodian. This Resolution is conditional on the passing of Resolutions 1, 2, 3 and 5.

The fifth resolution (**Resolution 5**) will be proposed as a cell special resolution and will approve the adoption of the New Fund Articles. This Resolution is conditional on the passing of Resolutions 1, 2, 3 and 4.

A print of the New Fund Articles showing the changes to the existing Fund Articles will be available for inspection from the date of this document until the conclusion of the Cell Extraordinary General Meeting at the offices of Norton Rose LLP, 3 More London Riverside, London SE1 2AQ and for at least 15 minutes prior to, and during, the meeting at the place of the Cell Extraordinary General Meeting.

All Shareholders are entitled to attend and vote at the Cell Extraordinary General Meeting. In accordance with the Fund Articles, all Shareholders present otherwise than by proxy shall, upon a show of hands have one vote and on a poll every Shareholder present (including by proxy) shall have one vote in respect of every Share held. In order to ensure that a quorum is present at the Cell Extraordinary General Meeting, it is necessary for two Shareholders entitled to vote holding one tenth in number of the Shares to be present, whether in person or by proxy (or, if a corporation, by a representative).

## **The Cell and Company Meeting**

The Cell and Company Meeting will be held at 12:05 p.m. on 19 September 2011 at Wests Centre, St Helier, Jersey JE4 8PQ. The business to be considered at the Cell and Company Meeting is contained in the notice convening the Cell Extraordinary General Meeting and Cell and Company Meeting on pages 28 to 30 of this document.

The Cell and Company Resolution will be proposed as a cell and company resolution and will approve the adoption of the New Company Articles. This Resolution is conditional on the passing of Resolution 1 proposed at the Cell Extraordinary General Meeting.

A print of the New Company Articles showing the changes to the existing Company Articles will be available for inspection from the date of this document until the conclusion of the Cell and Company Meeting at the offices of Norton Rose LLP, 3 More London Riverside, London SE1 2AQ and for at least 15 minutes prior to, and during, the meeting at the place of the Cell and Company Meeting.

All Shareholders are entitled to attend and vote at the Cell and Company Meeting. In accordance with the Company Articles, all Shareholders present otherwise than by proxy shall, upon a show of hands have one vote and on a poll every Shareholder present (including by proxy) shall have one vote in respect of every Share held. In order to ensure that a quorum is present at the Cell and Company Meeting, it is

necessary for two Shareholders entitled to vote holding one tenth in number of the Shares to be present, whether in person or by proxy (or, if a corporation, by a representative).

### **Action to be taken by Shareholders**

Shareholders will find enclosed with this document a Form of Proxy for use at the Cell Extraordinary General Meeting and Cell and Company Meeting.

Whether or not you intend to be present at the Cell Extraordinary General Meeting or Cell and Company Meeting, you are requested to complete and sign the Form of Proxy and return it, in accordance with the instructions printed thereon, to Capita Registrars, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible and, in any event, so as to arrive by no later than 12:05 p.m. on 17 September 2011.

The return of a completed Form of Proxy will not prevent you from attending the Cell Extraordinary General Meeting or Cell and Company Meeting, and voting in person should you wish to do so.

### **Recommendation**

The Board considers that the Proposals are in the best interests of Shareholders as a whole. The Board has received financial advice from Collins Stewart and in giving that financial advice Collins Stewart has placed reliance on the Board's commercial assessments. Accordingly, the Board recommends that Shareholders vote in favour of all the Cell Resolutions to be proposed at the Cell Extraordinary General Meeting and the Cell and Company Resolution to be proposed at the Cell and Company Meeting, as the Directors intend to do in respect of their own beneficial holdings of Shares which, in aggregate, amount to 465,000 Shares, representing approximately 0.58 per cent of the issued share capital of the Fund.

Yours faithfully

Raymond Apsey  
*Chairman*

## PART II

### PROPOSED NEW INVESTMENT OBJECTIVE AND INVESTMENT POLICY

If all the Cell Resolutions are passed at the Cell EGM and the Proposals are implemented the Fund will adopt a new investment objective and investment policy. The investment objective and investment policy are being changed in order to reflect the changes to the Fund's structure as a result of the implementation of the Proposals and the removal of the Swap.

The new investment objective and the new investment policy, which will be adopted conditionally on the passing of the Cell Resolutions, are set out in full below. For comparison purposes, a summary of the existing investment policies of the Fund and CIT Trust are also set out below.

#### **New Investment Objective and Policy**

The Fund seeks to provide Shareholders with a high level of dividends as well as capital growth over the longer term. The Fund intends to pay dividends on a quarterly basis each year.

#### *Investment Portfolio*

The Fund will seek to achieve its investment objective by investing predominantly in the securities of companies and REITs domiciled in Canada and listed on a Canadian Stock Exchange, that the Investment Manager believes will provide an attractive level of distributions, together with the prospect for capital growth. It is expected that the Fund's portfolio will generally comprise between 40-70 investments.

The Fund may also hold cash or cash equivalents.

The Fund may utilise derivative instruments including index-linked notes, contracts for differences, covered options and other equity-related derivative instruments for the purposes of efficient portfolio management.

The Fund will at all times invest and manage its assets in a manner which is consistent with the objective of spreading investment risk.

#### *Investment restrictions*

The Fund will not at the time of making an investment:

- (a) have more than 10 per cent of the value of its portfolio assets invested in the securities of any single issuer;
- (b) have more than 50 per cent of the value of its portfolio assets comprised of its ten largest security investments by value; or
- (c) have more than 10 per cent of the value of its portfolio assets invested in securities listed on a recognised stock exchange outside Canada; or
- (d) have more than 10 per cent of the value of its portfolio assets invested in unquoted securities; or
- (e) purchase securities on margin or make short sales of securities or maintain short positions in excess of 10 per cent of the Fund's net asset value.

#### *Hedging*

The Board reserves the right to employ currency hedging but, other than in exceptional circumstances, does not intend to hedge.

#### *Gearing*

The Fund has power to borrow up to 25 per cent of the value of its total assets at the time of drawdown. In the normal course of events, and subject to Board oversight, the Fund is expected to employ gearing in the range of 0 to 20 per cent of the value of its total assets in order to enhance returns.

## **Current Investment Objective and Policy**

For comparison purposes a summary of the Fund's and CIT Trust's current investment objectives and policies are set out below.

### ***Fund***

The Fund's investment objective is to produce a high income return whilst also seeking to preserve shareholder capital.

To achieve its objectives, the Fund (i) entered into the Swap in order to achieve efficient currency hedged economic exposure to the Canadian equity income securities market and, (ii) also invests its assets in the Money Market and Bond Portfolio.

### ***The Swap***

The Fund is, through its exposure to CIT Trust under the Swap, exposed to a portfolio of investments in Canadian equity income securities. The Fund's performance is therefore affected by the performance of the Canadian economy and the performance of the Canadian equity income securities.

### ***Money Market and Bond Portfolio***

The Money Market and Bond Portfolio consists on cash and short term near cash investments (including CDs) and gilts. Up to 20 per cent of the Money Market and Bond Portfolio may be invested in AA+ corporate bonds. No single investment will account for more than 10 per cent of the Money Market and Bond Portfolio (other than gilts and treasuries) at the time the investment is made. The Money Market and Bond Portfolio acts as collateral for the Fund's obligations under the Swap.

### ***Gearing***

The Fund has power to borrow up to 25 per cent of its net asset value. The Fund may in limited circumstances borrow for short term purposes. Any borrowing will be short term in nature and will be for the purposes of efficient portfolio management only. The Fund will not utilise this power to make long term investments.

### ***CIT Trust***

CIT Trust has a stated policy to provide a high income return while also seeking to preserve unitholder capital and is subject to certain investment restrictions.

CIT Trust has the power to borrow up to 25% of the value of its total assets for various purposes, including purchasing additional securities for its portfolio and funding redemptions.

In particular, CIT Trust will not:

- (a) for a period of more than 90 days:
  - (i) own more than 10% of any class of securities of any one issuer or purchase the securities of an issuer for the purpose of exercising control over management of any issuer;
  - (ii) have more than 10% of the value of its portfolio assets invested in the securities of any single issuer;
  - (iii) have more than 50% of the value of its portfolio assets comprised of the ten largest security investments of CIT Trust by value;
  - (iv) have less than 60% of the value of its portfolio assets comprised of units of oil and gas royalty trusts, business trusts, REITs, pipeline and power trusts, as well as other Canadian income producing securities (including common shares, preferred shares and convertible debentures) of issuers which were previously constituted as income trusts and which, following their conversion, continue to distribute a significant portion of their free cash flow, in each case which are listed on a Canadian stock exchange or public market;

- (v) have more than 40% of the value of its portfolio assets comprised of common shares (and securities convertible into or exchangeable for common shares) and preferred shares of issuers listed on a Canadian stock exchange (**Eligible Shares**) which are not former income trusts;
  - (vi) have more than 50% of the value of its portfolio assets comprised of units of business trusts which are listed on a Canadian stock exchange or public market;
  - (vii) have more than 50% of the value of its portfolio assets comprised of units of oil and gas royalty trusts which are listed on a Canadian stock exchange or public market;
  - (viii) have more than 50% of the value of its portfolio assets comprised of units of REITs which are listed on a Canadian stock exchange or public market;
  - (ix) have more than 50% of the value of its portfolio assets comprised of units of pipeline and power trusts which are listed on a Canadian stock exchange or public market; or
  - (x) have more than 50% of the value of its portfolio assets comprised of income deposit securities, securities of issuers in new income trust sectors, securities convertible into income trust units or income deposit securities and units of limited partnerships (to the extent that the limited partnership units are not considered to be units of issuers of oil and gas royalty trusts, business units, REITs or pipeline and power trusts);
- (b) write a call option in respect of any security unless such security is actually held in its portfolio at the time the option is written and provided that CIT Trust shall not write call options on more than one third of the value of the Eligible Shares in its portfolio;
  - (c) dispose of any security included in the portfolio that is subject to a call option written by CIT Trust unless such option has either terminated or expired;
  - (d) write put options in respect of any security unless (i) CIT Trust is permitted to invest in such security, and (ii) so long as the options are exercisable, CIT Trust continues to hold cash, cash equivalents and cash cover sufficient to acquire the security underlying the options at the aggregate exercise price of such options;
  - (e) reduce the total amount of cash, cash equivalents and cash cover held by CIT Trust, unless after any such reduction, the total amount of cash, cash equivalents and cash cover held by it remains an amount not less than the aggregate exercise price of all outstanding put options written by CIT Trust;
  - (f) borrow money (other than in connection with CIT Trust's loan facility) or guarantee the obligations of any person other than the managing trustee, or any person appointed as a manager of CIT Trust from time to time, and then only in respect of CIT Trust's activities;
  - (g) enter into derivative transactions except as permitted under the current investment objective and policy; or
  - (h) purchase securities on margin or make short sales of securities or maintain short positions in excess of 10% of CIT Trust NAV.

The above restrictions apply at the time a transaction is effected.

## PART III

### MANAGEMENT AND ADMINISTRATION ARRANGEMENTS

As a result of the Proposals, the Company and the Fund are making a number of changes to the contracts currently in place with key service providers. The Investment Management Agreement and the Administration Agreement, both of which are conditional on the implementation of the Proposals, will come into force on the Effective Date. Each of these agreements is summarised below.

#### Investment Management Agreement

Pursuant to the Investment Management Agreement, MIL will be given responsibility for the day-to-day discretionary management of the Fund's assets in accordance with the Fund's new investment objective and investment policy, subject to the overall supervision of the Directors. MIL may delegate its investment management duties to an affiliated company and it is expected that the provision of these services will be delegated to Middlefield Capital Corporation which currently acts as investment advisor to the CIT Trust.

From the termination date of the Swap until 28 June 2013 (when the Swap would otherwise have terminated) MIL will be entitled to a management fee payable quarterly in arrear on the average Net Asset Value of the Fund calculated over the relevant quarter period at a rate fixed on the Effective Date as being that which would provide the same quantum of fees as are payable by the Fund (0.1 per cent. per annum) and CIT Trust under the existing management and advisory arrangements, calculated using the value of the CIT Trust portfolio immediately prior to termination of the Swap and prevailing exchange rates at that time.

Such fee will not in any event exceed a rate of 0.90 per cent. per annum of the average Net Asset Value of the Fund calculated over the relevant quarter period. Following 28 June 2013, the management fee will be payable quarterly in arrear at a rate of 0.70 per cent per annum of the average Net Asset Value of the Fund calculated over the relevant quarter period. MIL will be responsible for the payment of any fees to any person to whom it delegates the provision of its services out of its own management fee.

The Investment Management Agreement contains provisions under which the Fund indemnifies the Investment Manager (together with its associates or any of their respective directors, officers, employees or agents) against all liabilities suffered by the Investment Manager in carrying out its duties except for liabilities caused by the Investment Manager's negligence, wilful default, fraud, bad faith or material breach of the FSA Rules or the regulatory system by the Investment Manager. The indemnities given by the Fund are standard for an agreement of this nature. There is no cap on the Fund's liability.

The Investment Management Agreement also contains an indemnity from the Investment Manager in favour of the Fund which is substantially similar in nature to the indemnity given to the Investment Manager by the Fund save that the Investment Manager's liability is limited to an amount equal to ten times the aggregate of the management fee actually received under the Investment Management Agreement.

The Investment Management Agreement is terminable by notice where:

- (a) any party materially breaches the terms of the Investment Management Agreement and such breach (if capable of remedy) is not remedied within 30 days of written notice of such breach; or
- (b) any party commences liquidation or similar proceedings; or
- (c) 90 days' prior written notice is given by the Investment Manager; or
- (d) 90 days' prior written notice is given by the Fund; or
- (e) the Investment Manager ceases to be authorised to act as the investment manager.

Termination shall be without prejudice to the completion of any transactions already initiated and shall be without any penalty or other additional payment save that the Fund shall be obliged to pay the accrued contractual fees and other costs and expenses due to the Investment Manager.

## **Administration Agreement**

Pursuant to the Administration Agreement, KBCI will be responsible for the Fund's general administrative functions, such as the calculation of the Fund's Net Asset Value and the Net Asset Value per Share and the maintenance of accounting records.

KBCI will be entitled to an administration fee payable quarterly in arrear at the rate of 0.1 per cent per annum of the average Net Asset Value of the Fund calculated over the relevant quarter period.

The Administration Agreement contains provisions under which the Fund exempts the Administrator from all liabilities and indemnifies the Administrator against all liabilities suffered by the Administrator in carrying out its duties except where due to the Administrator's negligence, wilful default, dishonesty, bad faith, fraud or breach of the agreement or of applicable laws or regulations by the Administrator. The indemnities given by the Fund are standard for an agreement of this nature. There is no cap on the Fund's liability.

Either party may terminate the Administration Agreement at any time on not less than 6 months' notice in writing or by forthwith notice where:

- (a) either party materially breaches the Administration Agreement and such breach (if capable of remedy) is not remedied within 30 days; or
- (b) either party commences liquidation or similar proceedings; or
- (c) where the Administrator ceases to be permitted to act as such under the Companies Law.

Termination shall be without any penalty or other additional payment save that the Fund shall be obliged to pay the accrued contractual fees and other costs and expenses due to the Administrator.



## PART IV

### AMENDMENTS TO THE ARTICLES

#### **Amendments to the Fund Articles**

The New Fund Articles will be adopted conditional on the passing of all the Cell Resolutions. A summary of the principal amendments made to the existing Fund Articles is set out below:

##### *Amendments to Article 2.3 (rights attaching to the Management Shares)*

The Management Shares will become entitled to a fixed annual dividend equal to 0.0001 per cent of their issue price (such issue price being £1.00).

On the winding-up of the Fund, the Management Shares will be entitled to the repayment of their issue price only.

##### *Amendments to Article 3.8 (cell provisions)*

The restriction on the Fund which prevents it appointing a manager resident in the United Kingdom will be removed.

##### *Amendments to Article 17.1 (shareholder meeting notice requirements)*

To reflect changes in Jersey law, all Cell Shareholder meetings (including Annual General Meetings and meetings at which special resolutions are proposed) may now be held at 14 clear days' notice.

##### *Amendments to Article 18.2 (shareholder meeting quorum requirements)*

The quorum for future Cell Shareholder meetings will be two Shareholders present in person or by proxy.

##### *Amendments to Article 23.1 (borrowing powers)*

The restriction on Directors borrowing monies for the purpose of making long-term investments will be removed.

##### *Amendments to Article 35 (dividends)*

The distribution as dividends of surpluses arising from the realisation of investments will be prohibited.

#### **Amendments to the Company Articles**

The New Company Articles will be adopted conditional on the passing of all the Cell Resolutions and the Cell and Company Resolution. A summary of the principal amendments made to the existing Company Articles is set out below

##### *Amendment of Article 2.2 (rights attaching to the Management Shares)*

The Management Shares will become entitled to a fixed annual dividend equal to 0.0001 per cent of their issue price (such issue price being £1.00).

Management Shares shall not be entitled to any share in the profits of the Company or any Cell and while any Cells are in existence their only rights as to capital shall be to the repayment of their issue price only.

##### *Amendment to Article 16.1 (shareholder meeting notice requirements)*

To reflect changes in Jersey law, all Shareholder meetings (including Annual General Meetings and meetings at which special resolutions are proposed) may now be held at 14 clear days' notice.

*Amendments to Article 17.2 (shareholder meeting quorum requirements)*

The quorum from for future Cell Shareholder meetings will be two Shareholders present in person or by proxy.

*Amendments to Article 26 (resignation, disqualification and removal of directors)*

Directors will no longer be forced to resign if they become resident in the United Kingdom.

*Amendments to Article 30 (proceedings of directors)*

Directors will be required to hold board meetings in the United Kingdom and a quorum for a meeting of Directors shall require a majority of those present to be located in the United Kingdom.

*Amendments to Article 35 (dividends)*

The distribution as dividends of surpluses arising from the realisation of investments will be prohibited.

## PART V

### TAXATION

#### **UK Taxation**

The following paragraphs are intended as a general guide only and are based on current legislation and HMRC practice, which is in principle subject to change at any time. They summarise advice received by the Directors as to the position of Shareholders who (unless the position of non-resident Shareholders is expressly referred to) are resident or ordinarily resident in the United Kingdom (UK) for tax purposes, who are the absolute beneficial owners of their Shares, who have not acquired their Shares by virtue of an office or employment and who hold their Shares as an investment. Certain Shareholders, such as dealers in securities, insurance companies and collective investment vehicles, may be taxed differently and are not considered below.

**If you are in any doubt as to your tax position or if you are subject to tax in a jurisdiction outside the UK, you should consult an appropriate professional adviser without delay.**

#### ***The Fund***

It is the intention of the Directors, once the Fund has become resident in the UK for tax purposes, to conduct the affairs of the Fund so as to satisfy the conditions for approval as an investment trust under Chapter 4 of Part 24 of the Corporation Tax Act 2010. In respect of each accounting period for which approval is granted, the Fund will be exempt from UK taxation on its capital gains. The Fund will, however, be liable to UK corporation tax on its income in the normal way. Provided that dividends received by the Fund fall within one of the exempt classes in Part 9A of the Corporation Tax Act 2009, the Fund should not be subject to corporation tax on such dividends. Income arising from overseas investments may be subject to foreign withholding taxes at varying rates, but double taxation relief may be available.

In March 2010 the UK Government announced plans to modernise the tax regime governing UK investment trusts. Following a period of consultation, legislation has been included in the Finance Act 2011 introducing a revised definition of investment trust and draft regulations have been published. The new definition in conjunction with the regulations will not impose a materially higher standard of principal requirements for qualification as an investment trust and it is anticipated that the Fund will be able to qualify as an investment trust following implementation of the new legislation. However, there can be no guarantee that the draft regulations will not be subject to change before becoming law which may have a material effect on the requirements that the Fund must follow in order to qualify as an investment trust.

#### ***Shareholders***

##### *Taxation of capital gains*

Depending on their personal circumstances, UK resident Shareholders may be subject to capital gains tax or, in the case of corporate Shareholders, corporation tax on chargeable gains, in respect of any gain arising on a transfer or disposal of their Shares, including a disposal on a winding-up of the Fund. UK resident Shareholders will not be deemed to have disposed of their Shares merely by virtue of the Fund becoming UK tax resident.

For Shareholders who are individuals, or otherwise not within the charge to UK corporation tax, UK capital gains tax may be payable on a disposal of the Shares at the flat rate of 18 per cent for basic rate taxpayers or 28 per cent for higher or additional rate taxpayers. No indexation allowance is available to such holders, but Shareholders may be entitled to an annual exemption from capital gains (for the year 2011/2012, this is £10,600).

Individual Shareholders who are temporarily non-resident in the UK may, under anti-avoidance legislation, still be liable to UK tax on any capital gain realised (subject to any available exemption or relief).

Shareholders within the charge to UK corporation tax may be liable to UK corporation tax (currently 26 per cent) on chargeable gains on a disposal of their Shares. Indexation allowance may be available to reduce the amount of any chargeable gain (but cannot be used to create or increase an allowable loss).

### *Taxation of dividends and distributions*

Under current law, the Fund will not be required to withhold tax at source when paying a dividend.

UK resident individual Shareholders will be liable to income tax on the amount of any dividends received. Basic rate taxpayers will be liable to income tax at 10 per cent, higher rate taxpayers at 32.5 per cent and additional rate taxpayers at 42.5 per cent. A tax credit equal to 10 per cent of the gross dividend (also equal to one-ninth of the cash dividend received) should be available to set off against a Shareholder's total income tax liability. The effect of the tax credit is that a basic rate taxpayer will not have to account for any additional tax to HMRC, a higher rate taxpayer will have to account for additional tax equal to 22.5 per cent of the gross dividend (which equals 25 per cent of the cash dividend received) and an additional rate taxpayer will have to account for additional tax equal to 32.5 per cent of the gross dividend received (which equals 36.11 per cent of the cash dividend received).

There will be no repayment of all or part of the tax credit to an individual Shareholder whose liability to income tax on all or part of the gross dividend is less than the amount of the tax credit. This will include a Shareholder who holds Shares through an ISA.

Dividends received by UK corporate Shareholders will be subject to UK corporation tax, unless the dividend falls within one of the exempt classes set out in Part 9A of the Corporation Tax Act 2009. It is likely that dividends will fall within one of such exempt classes but Shareholders within the charge to UK corporation tax are advised to consult their independent professional tax advisers to determine whether dividends received will be subject to UK corporation tax.

Shareholders who are not resident in the UK may be entitled to a payment from HMRC of a proportion of the tax credit relating to their dividends but such entitlement will depend, in general, on the provisions of any double taxation agreement or convention which exists between the UK and their country of residence. Non-UK resident Shareholders may be subject to local taxation on dividend income in their country of residence. Any person who is not resident in the UK should consult his own tax adviser on the question of the double taxation position applying between his country of residence and the UK.

### *Stamp duty and stamp duty reserve tax*

The following comments are intended as a guide to the general UK stamp duty and SDRT position and do not relate to persons such as market makers, brokers, dealers, intermediaries and persons connected with depository arrangements or clearance services to whom special rules apply.

UK stamp duty (at the rate of 0.5 per cent, rounded up where necessary to the next £5, of the amount of the value of the consideration for the transfer) is payable on any instrument of transfer of Shares executed within, or in certain cases brought into, the UK. Provided that the Shares are not registered in any register of the Fund kept in the UK, any agreement to transfer Shares should not be subject to SDRT. The Fund intends to maintain its registers in Jersey accordingly.

### *Individual Savings Accounts (ISAs) and Self-Invested Personal Pensions (SIPPs)*

The Shares will be eligible for inclusion in an ISA (subject to applicable subscription limits) and that they will be permissible assets for a SIPP.

## **Canadian Taxation**

The following paragraphs are intended as a general guide only and are based on current provisions of the *Income Tax Act* (Canada) and its regulations ("Canadian Tax Act"), the *Canada – U.K. Income Tax Convention* ("UK/Canada Treaty") and the current publicly available published administrative policies and assessing practices of the Canada Revenue Agency.

They summarise advice received by the Directors as to the position of the Fund and its Shareholders who are resident or ordinarily resident in the United Kingdom ("UK") for tax purposes and not resident in Canada for purposes of the Tax Act, who are the absolute beneficial owners of their Shares, and who hold their Shares as capital property.

This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the proposed amendments, does not take into account any changes in the law, whether by legislative,

governmental or judicial action, nor does it take into account provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Shareholder.

### ***The Fund***

For purposes of the Canadian Tax Act, the Company rather than the Fund is considered a taxpayer. The Company will be managed and controlled in such a way that it should not be resident in Canada for Canadian income tax purposes. Accordingly, and provided that the Company does not carry on business in Canada for Canadian income tax purposes, the Company will not be subject to Canadian income tax other than Canadian withholding tax on its Canadian source income as described in more detail below.

The following assumes that the Company will be a resident of the UK for purposes of the UK/Canada Tax Treaty, will be the beneficial owner of payments received on Canadian securities and will not hold 10% or more of the voting power in any Canadian corporation.

#### *Dividends from Canadian Corporations*

Dividends paid to the Company on shares of a Canadian corporation will be subject to a 15 per cent. Canadian withholding tax.

#### *Distributions from Canadian REITs*

Distributions of income, capital gains and returns of capital paid on units of a Canadian REIT to the Company (whether paid in cash or units) will be subject to a 15 per cent. Canadian withholding tax.

#### *Distribution from Canadian Trusts that are not REITs*

If the Fund holds units of a Canadian trust that is not a REIT, distributions of income paid on such units to the Company will be subject to a 15 per cent. Canadian withholding tax whereas distributions of returns of capital and capital gains may not be subject to Canadian withholding tax or will be subject to a 15 per cent. Canadian withholding tax. In general, withholding tax will apply on such distributions if the units of the Canadian trust are listed on a “designated stock exchange”, the trust is a “mutual fund trust” and more than 50% of the fair market value of the unit is attributable to Canadian real estate or resource properties. In addition, in general terms, distributions by a trust of capital gains realised from the disposition of “taxable Canadian property” are subject to Canadian withholding tax if paid by a “mutual fund trust” that has more than 5% of its units held by holders who are not residents of Canada.

#### *Interest on Canadian Debt Instruments*

Interest paid to the Company on debt instruments of Canadian issuers will not be subject to Canadian withholding tax provided that the Company deals at arm’s length with the Canadian issuer and further provided that the interest is not a “participating debt interest” as defined in the Canadian Tax Act.

#### *Capital Gains*

Under the Canadian Tax Act, the Company will not be liable to pay Canadian income tax on any capital gain realised on a disposition of a security provided that such security is not “taxable Canadian property.”

In general, securities that are listed on a “designated stock exchange” (e.g. the Toronto Stock Exchange) will not be “taxable Canadian property” to the Company unless at any time in the 60-month period prior to the disposition (a) in the case of shares, 25% or more of the issued shares of any class of the corporation, or in the case of a trust, 25% or more of the issued units of the trust, are owned or belonged to one or any combination of the Company and persons who do not deal at arm’s length with the Company, and (b) more than 50% of the fair market value of the security was derived directly or indirectly from real property situated in Canada, Canadian resource properties or options or interests in such property.

If securities are “taxable Canadian property,” then the Company will be exempt from paying tax on any capital gain realised on a disposition of such securities under the provisions of the UK/Canada Treaty, if,

- (a) in the case of shares of a corporation, (i) the shares are listed on an “approved stock exchange” (which includes the Toronto Stock Exchange), or (ii) the Company (including any

person related or connected with the Company) owns immediately before the disposition less than 10 per cent. of each class of the shares capital of the Canadian corporation, and

(b) in the case of units of trust, the Company (including any person related or connected with the Company) owns immediately before the disposition less than 10 per cent. of the units of the Canadian trust.

### **Shareholders**

UK resident Shareholders will not be subject to Canadian withholding tax on distributions paid by the Fund to the Shareholder.

A UK resident Shareholder will not be liable to pay Canadian income tax on any capital gain realised on a disposition of Shares provided that the Shares continue to be listed on the Official List and admitted to trading on the London Stock Exchange (or another "approved stock exchange").

If the Shares are not listed on the Official List and admitted to trading on the London Stock Exchange (or another "approved stock exchange"), the UK resident Shareholder will be liable to pay Canadian income tax on a capital gain realised on a disposition of Shares only if (a) immediately prior to the disposition the UK resident Shareholder (including an person related or connected with the Shareholder) owned 10 per cent. or more of a class of shares of the Company, and (b) the Shares are "taxable Canadian property." In general, the Shares will be "taxable Canadian property" to such a UK resident Shareholder if at any time in the 60-month period prior to the disposition more than 50% of the fair market value of the Shares was derived directly or indirectly from real property situated in Canada, Canadian resource properties or options or interests in such property.

## PART VI

### ADDITIONAL INFORMATION

#### 1 General

Collins Stewart has given and not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which they are included.

#### 2 Documents available for inspection

Copies of the following documents will be available for inspection at the offices of Norton Rose LLP, 3 More London Riverside, London SE1 2AQ during normal business hours on weekdays (Saturdays, Sundays and public holidays excepted) from the date of this document until the conclusion of the Cell EGM and at the place of the Cell EGM from 15 minutes before the Cell EGM until its conclusion:

- (a) a print of the New Fund Articles blacklined to show changes to the existing Fund Articles;
- (b) a print of the New Company Articles blacklined to show changes to the existing Company Articles;
- (c) copies of the Investment Management Agreement and the Administration Agreement; and
- (d) a copy of the written resolution of the Company passed by its sole shareholder dated 18 August 2011.

19 August 2011

## DEFINITIONS

In this document the words and expressions listed below have the meanings set out opposite them, except where the context otherwise requires:

<b>Administration Agreement</b>	the new administration agreement to be made between the Administrator and the Fund, a summary of which is set out in Part III of this document
<b>Administrator</b>	Kleinwort Benson (Channel Islands) Corporate Services Limited
<b>AIC SORP</b>	means the statement of recommended practice relating to the financial statements of investment trust companies and venture capital trusts published by The Association of Investment Companies
<b>Board or Directors</b>	the board of Directors of the Company and the Fund who as at the date of this document comprise those directors whose names are set out on page 4 of this document, or any director, as the context may require or any duly constituted committee thereof
<b>C\$ or CAD</b>	the lawful currency of Canada
<b>CD</b>	a certificate of deposit
<b>Cell</b>	any cell created pursuant to the Companies Law and the Articles for the purposes of segregating and protecting cellular assets and representing the assets of that cell in the manner provided for in the Companies Law
<b>Cell and Company Meeting</b>	the meeting of shareholders of the Fund and the Company to consider the Proposals, convened for 12:05 p.m. on 19 September 2011 or any adjournment thereof, notice of which is set out on pages 28 to 30 of this document
<b>Cell and Company Resolution</b>	the resolution to be proposed at the Cell and Company Meeting, details of which are contained in the Notice of the Cell EGM and Cell and Company Meeting
<b>Cell Extraordinary General Meeting or Cell EGM</b>	the extraordinary general meeting of the Fund to consider the Proposals, convened for 12 noon on 19 September 2011 or any adjournment thereof, notice of which is set out on pages 28 to 30 of this document
<b>Cell Resolutions</b>	the resolutions to be proposed at the Cell Extraordinary General Meeting, details of which are contained in the Notice of the Cell EGM and Cell and Company Meeting
<b>CIBC</b>	Canadian Imperial Bank of Commerce, the Swap counterparty
<b>CIT Portfolio</b>	the portfolio of investments owned by the CIT Trust immediately prior to the termination of the Swap
<b>CIT Trust</b>	CIT Fund, a Canadian unit trust created to invest predominantly in Canadian income trusts, and units of which are the reference investment under the Swap
<b>Collins Stewart</b>	Collins Stewart Europe Limited



<b>Companies Law</b>	the Companies (Jersey) Law 1991 (as amended) and subordinate legislation made thereunder and every modification or re-enactment thereof for the time being in force
<b>Company</b>	Middlefield Canadian Income PCC
<b>Company Articles</b>	the articles of association of the Company, as amended from time to time
<b>CREST</b>	the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by Euroclear in accordance with the CREST Regulations
<b>CREST Manual</b>	the compendium of documents entitled CREST Manual issued by Euroclear from time to time and comprising the CREST Reference Manual, the CREST Central Counterparty Service Manual, the CREST International Manual, CREST Rules, CCSS Operations Manual and the CREST Glossary of Terms
<b>CREST Regulations</b>	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)
<b>CREST sponsor</b>	a CREST participant admitted to CREST as a CREST sponsor, being a sponsoring system participant (as defined in the CREST Regulations)
<b>Cross Currency Margin Differential or CCMD</b>	at any time means the per cent rate per annum (expressed on the basis of a 365 day year) equal to the margin over LIBOR (expressed as a negative number) or under LIBOR (expressed as a positive number) which a prime bank would be obliged to pay under a cross-currency interest rate swap based on prevailing market conditions for a term entered into or commencing on or about such time and ending on or about the Termination Date pursuant to which such prime bank would receive quarterly payments in the amount determined at the prevailing three month Canadian bankers acceptance rate computed on the C\$ Notional Reference Investment Amount and pay quarterly payments in the amount determined as the prevailing LIBOR plus such margin computed on the Sterling Notional Reference Amount
<b>CTA 2010</b>	the Corporation Tax Act 2010, as amended
<b>Custody Agreement</b>	the custody agreement to be entered into between the Fund and RBC Dexia
<b>Effective Date</b>	the date, following the Board's resolution to transfer the tax residency of the Company and the Fund from Jersey to the United Kingdom, on which the first Board meeting is held in the United Kingdom, expected to be 11 October 2011
<b>Euroclear</b>	Euroclear UK & Ireland Limited, being the operator of CREST
<b>Financial Services Authority or FSA</b>	the single regulatory authority for the UK financial services industry
<b>Form of Proxy</b>	the form of proxy accompanying this document for use in connection with the Cell Extraordinary General Meeting
<b>FSMA</b>	the Financial Services and Markets Act 2000

<b>Fund</b>	Middlefield Canadian Income - GBP PC, the Company's only Cell at the date of this document (such term to include, where the context requires, the Company acting in respect of such Cell)
<b>Fund Articles</b>	the articles of association of the Fund, as amended from time to time
<b>HMRC</b>	Her Majesty's Revenue and Customs
<b>Investment Advisory Agreement</b>	the investment advisory agreement between KBCI, MIL and the Fund dated 19 June 2006
<b>Investment Management Agreement</b>	the investment management agreement between the Investment Manager and the Fund, a summary of which is set out in Part III of this document
<b>Investment Manager</b>	Middlefield International Limited
<b>ITA 2007</b>	the Income Tax Act 2007, as amended
<b>JFSC or Commission</b>	the Jersey Financial Services Commission
<b>KBCI</b>	Kleinwort Benson (Channel Islands) Corporate Services Limited
<b>KBGL</b>	Kleinwort Benson (Guernsey) Limited
<b>LIBOR</b>	in relation to any period the three month rate of the official quotation for Sterling deposits which appears on Telerate page 3740 at or about 11.00 a.m. London time on the day of commencement of the relevant period
<b>London Stock Exchange</b>	London Stock Exchange plc
<b>Management and Administration Agreement</b>	the management and administration agreement between the Fund and KBCI dated 19 June 2006
<b>Management Shares</b>	non-participating shares of no par value in the capital of the Company or the Fund, as the context requires
<b>MIL</b>	Middlefield International Limited
<b>Money Market and Bond Portfolio</b>	the Fund's money market and bond portfolio consisting of cash, short term near cash investments (including CDs) and gilts used by the Fund as collateral under the Swap
<b>Net Asset Value or NAV</b>	the value of the assets of the Fund less its liabilities determined in accordance with the Fund Articles and the principles adopted by the Directors for calculating the net asset value of the Fund (which includes any accrued income not yet paid as a dividend)
<b>Net Asset Value per Share</b>	the Net Asset Value divided by the number of Shares then in issue (excluding Shares held in treasury) and expressed in Sterling
<b>New Company Articles</b>	the draft amended articles of association to be considered at the Cell and Company Meeting and, subject to Shareholder approval, to be adopted by the Company
<b>New Fund Articles</b>	the draft amended articles of association to be considered at the Cell EGM and, subject to Shareholder approval, to be adopted by

	the Fund
<b>New Material Contracts</b>	the Investment Management Agreement, the Administration Agreement and the Custody Agreement
<b>Notice of the Cell EGM and Cell and Company Meeting</b>	the notice of the Cell Extraordinary General Meeting and the Cell and Company Meeting as set out at the end of this document
<b>Proposals</b>	the proposals described in this document relating to the removal of the Swap, the adoption of a new investment objective and investment policy, the transfer of the Company's and the Fund's tax residency from Jersey to the United Kingdom, the appointment of RBC Dexia as the Fund's custodian and the adoption of the New Fund Articles and New Company Articles
<b>RBC Dexia</b>	RBC Dexia Investor Services Trust, the proposed new custodian of the Fund
<b>Regulatory Information Service</b>	a service authorised by the UK Listing Authority to release regulatory announcements to the London Stock Exchange
<b>REITs</b>	real estate investment trusts
<b>Shareholder</b>	a holder of Shares
<b>Shares</b>	redeemable participating preference shares of no par value in the capital of the Fund
<b>Sterling or £ or GBP</b>	the lawful currency of the United Kingdom
<b>Swap</b>	the swap between the Fund and CIBC
<b>Termination Date</b>	28 June 2013
<b>UK Listing Authority</b>	the Financial Services Authority acting in its capacity as the competent authority for listing pursuant to Part VI of FSMA
<b>UK or United Kingdom</b>	the United Kingdom of Great Britain and Northern Ireland

Unless otherwise stated in this document, all references to statute or other forms of legislation shall refer to statute or forms of legislation of the UK.

**MIDDELFIELD CANADIAN INCOME PCC  
(THE “COMPANY”)**

**MIDDLEFIELD CANADIAN INCOME - GBP PC  
(THE “FUND”)**

**NOTICE OF MEETINGS OF I) HOLDERS OF SHARES IN THE FUND AND  
II) HOLDERS OF SHARES IN THE COMPANY AND THE FUND**

**NOTICE IS HEREBY GIVEN** that:

- i) a Cell Extraordinary General Meeting of the holders of Shares in the Fund will be held at 12 noon on 19 September 2011 at Wests Centre, St Helier, Jersey JE4 8PQ for the purpose of considering and, if thought fit, passing Resolutions 1, 2 and 3 which will be proposed as cell ordinary resolutions and Resolution 4 which will be proposed as a cell special resolution; and
- ii) a Cell and Company Meeting of the holders of shares in the Fund and the holders of shares in the Company will be held at 12:05 p.m. on 19 September 2011 at Wests Centre, St Helier, Jersey JE4 8PQ for the purpose of considering and, if thought fit, passing the Cell and Company Resolution set out below which will be proposed as a cell and company resolution.

Terms defined in the circular issued by the Fund dated 19 August 2011 (the **Circular**) shall apply equally in this Notice.

**CELL ORDINARY RESOLUTIONS**

- 1 THAT, subject to and conditional on the passing of Resolution 5 below and the Cell and Company Resolution below, the Board be and are hereby authorised to transfer the tax residency of the Company from Jersey to the United Kingdom as described in the Circular and that the entry by the Fund into the New Material Contracts be and is approved.
- 2 THAT, subject to and conditional on the passing of Resolution 1 above and Resolutions 3 and 4 below, the Directors be authorised to terminate the Swap.
- 3 THAT, subject to and conditional on the passing of Resolutions 1 and 2 above and Resolution 4 below, the adoption of the new investment objective and investment policy as set out in Part II of the Circular be and is hereby approved.
- 4 THAT, subject to and conditional on the passing of Resolutions 1, 2 and 3 above and Resolution 5 below, the appointment of RBC Dexia Investor Services as the Fund’s custodian be and is hereby approved.

**CELL SPECIAL RESOLUTION**

- 5 THAT, subject to and conditional on the passing of Resolutions 1, 2 and 3 above, the New Fund Articles, described in the Circular and produced to the meeting marked “A” and initialled by the Chairman for the purposes of identification, be adopted in substitution for, and to the exclusion of, the existing Fund Articles with effect from the Effective Date.

**CELL AND COMPANY RESOLUTION**

**THAT**, subject to and conditional on the passing of Resolution 1 above, the New Company

Articles, described in the Circular and produced to the meeting marked "B" and initialled by the Chairman for the purposes of identification, be adopted in substitution for, and to the exclusion of, the existing Company Articles with effect from the Effective Date.

Capitalised terms in the above resolutions shall have the meanings given to them in the Circular.

**By order of the Board  
Kleinwort Benson (Channel Islands) Corporate Services Limited**

**Registered Office:**

PO Box 76  
West's Centre  
St Helier  
Jersey JE4 8PQ

Date: 19 August 2011

**Notes:**

- (1) A holder of Shares entitled to attend and vote at the Meetings is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a holder of Shares.
- (2) For the convenience of Shareholders who may be unable to attend the Meetings, a reply-paid Form of Proxy is enclosed with this document. To be valid, the Form of Proxy should be completed in accordance with the instructions printed on it and sent, so as to reach the Company's registrar, Capita Registrars, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by no later than 48 hours before the later of the time fixed for the Cell Extraordinary General Meeting and the time fixed for the Cell and Company Meeting. The fact that holders of Shares may have completed Forms of Proxy will not prevent them from attending and voting in person at the Cell Extraordinary General Meeting or the Cell and Company Meeting should they subsequently decide to do so.
- (3) The quorum for the Cell Extraordinary General Meeting and the Cell and Company Meeting is at least two Shareholders present in person or by proxy or by attorney holding one tenth in number of the relevant Shares but so that not less than two individuals will constitute a quorum. The majority required for the passing of the cell special resolution is two-thirds or more of the total number of votes cast for and against such resolution. The majority required for the passing of the cell ordinary resolutions and the cell and company resolution is a simple majority (or more) of the total number of votes cast for and against the resolution.
- (4) If, within half an hour from the appointed time for the Cell Extraordinary General Meeting or the Cell and Company Meeting, a quorum is not present, then that meeting will be adjourned to the same day at the same time in the next week (or if that date is a public holiday in the Island of Jersey to the next working day thereafter at the same time and address). At the adjourned meeting, if a quorum is not present within half an hour from the time appointed for the holding of the meeting, those Shareholders present in person or by proxy or by attorney will form a quorum whatever their number and the number of Shares held by them. Again, a majority of not less than two-thirds of the total number of votes cast is required to pass the cell special resolution and a simple majority of the total number of votes cast is required to pass the cell ordinary resolutions and the cell and company resolution.
- (5) In the event that a Form of Proxy is returned without an indication as to how the proxy shall vote on the Resolutions, the proxy will exercise his discretion as to whether, and if so how, he votes.
- (6) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Cell Extraordinary General Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- (7) In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instruction, as described in the CREST Manual (available via [www.euroclear.com/CREST](http://www.euroclear.com/CREST)). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Capita Registrars (ID RA10) by the latest time(s) for receipt of proxy appointments specified in Note 2 above. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
- (8) CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning

practical limitations of the CREST system and timings.

- (9) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Article 34 of the Companies (Uncertificated Securities) (Jersey) Order 1999.
- (10) The Fund, pursuant to regulation 40 of the (Companies Uncertificated Securities) (Jersey) Order 1999 (as amended), specifies that only holders of Shares registered in the register of members of the Fund at 6.00 p.m. on 28 August 2011 shall be entitled to attend or vote at the Cell Extraordinary General Meeting and the Cell and Company Meeting in respect of the number of Shares registered in their name at that time or in the event that the Cell Extraordinary General Meeting and/or the Cell and Company Meeting is adjourned, in the register of members at 6.00 p.m. two days before the date of any adjourned Cell Extraordinary General Meeting or Cell and Company Meeting. Changes to entries on the register of members after such time or, in the event that the Cell Extraordinary General Meeting and/or the Cell and Company Meeting is adjourned, to entries in the register of members after 6.00 p.m. two days before the date of the adjourned Cell Extraordinary General Meeting or Cell and Company Meeting, shall be disregarded in determining the rights of any person to attend or vote at the Cell Extraordinary General Meeting or Cell and Company Meeting.
- (11) As at 18 August 2011, being the last Business Day prior to the printing of this notice, the Fund's issued capital consisted of 80,317,500 Shares carrying one vote each. Therefore, the total voting rights in the Fund as at 18 August 2011 were 80,317,500.