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PROSPECTUS

Initial Public Offering

May 16, 2005



FIRST TRUST/HIGHLAND CAPITAL FLOATING RATE INCOME FUND II

\$150,000,000 (Maximum)

A Maximum of 15,000,000 Units

First Trust/Highland Capital Floating Rate Income Fund II (the "Fund") is an investment trust established under the laws of the Province of Ontario. The Fund proposes to issue redeemable, transferable units (the "Units") at a price of \$10.00 per Unit.

The Fund has been established to provide Unitholders with exposure to a portfolio consisting primarily of senior secured floating rate corporate loans ("Senior Loans") issued by debtors that are primarily U.S. issuers. The distributions of the Fund will vary with prevailing U.S. short-term interest rates. The Fund's distributions are intended to benefit Unitholders since returns of capital are generally not subject to tax (but reduce the adjusted cost base of the Units) and distributions of capital gains will generally be taxed at a lower rate than distributions of interest and other ordinary income.

The Fund's investment objectives are to:

- (i) provide holders of Units ("Unitholders") with tax efficient monthly distributions which will fluctuate with changes in U.S. short-term interest rates and are expected to consist primarily of capital gains and returns of capital; and
- (ii) preserve and enhance the net asset value ("NAV") per Unit in order to return the original subscription price of the Units (\$10.00 per Unit) to Unitholders on or about May 31, 2015 (the "Termination Date").

The initial monthly distribution of the Fund is expected to be an amount per Unit which, if sustained at that rate, would represent an annualized yield of approximately 6.0% on the subscription price of \$10.00 per Unit. After the initial monthly distribution, the distributions will be determined and announced on a monthly basis by the manager of the Fund based upon distributable cash flow. See "Investment Guidelines of the Senior Loan Trust - Investment Strategies" and "Distributions".

In order to meet its investment objectives, the Fund intends to obtain exposure to the performance of the Senior Loan Trust (as defined below) by virtue of one or more forward transactions (collectively, the "Forward

Agreement”) with The Bank of Nova Scotia (the “Counterparty”). The Fund will not invest directly in the Senior Loan Trust. The Fund will invest the net proceeds of the Offering in a portfolio of common shares of Canadian public companies (the “Common Share Portfolio”). Under the Forward Agreement, the Fund will be entitled to sell securities in the Common Share Portfolio from time to time to fund monthly distributions, redemptions and repurchases of Units, its operating expenses and other liabilities and general liquidity requirements. The purchase price payable by the Counterparty will be calculated by reference to the redemption proceeds of a notional investment (the “Notional Investment”) in units of the Senior Loan Trust at the time of the closing of the offering of an amount equal to the net proceeds of the offering. The Notional Investment will be reduced proportionately to reflect the redemption and repurchase of Units. As a result, Unitholder returns are intended to correlate with an investment in the Senior Loan Trust, subject to any expenses incurred by the Fund. See “Investment Guidelines of the Fund - Forward Agreement”.

The portfolio (the “Senior Loan Portfolio”) of First Trust/Highland Capital Senior Loan Trust, an investment trust established under the laws of Ontario (the “Senior Loan Trust”) will consist primarily of Senior Loans issued by debtors that are primarily U.S. issuers. Senior Loans generally hold the most senior position in the capital structure of a business entity, are typically secured with specific collateral and have a claim on the assets of the borrower that is senior to that held by subordinated debtholders and shareholders of the borrower. Senior Loans typically pay floating rates of interest which reset on a daily, monthly, quarterly or semi-annual basis by reference to a base lending rate, which is typically the London Interbank Offered Rate (“LIBOR”), plus a credit spread and thus generally move in the same direction as the applicable base lending rate. As a result, as U.S. short-term interest rates increase, the return on the Senior Loans included in the Senior Loan Portfolio should increase and, as U.S. short-term interest rates decrease, the return on the Senior Loans included in the Senior Loan Portfolio should decrease. Investments in adjustable rate instruments such as Senior Loans, in contrast to investments in fixed rate instruments, are expected to minimize changes in the underlying principal value of such instruments resulting from changes in market interest rates. As a result, changes in the Fund’s NAV, which reflects exposure to the value of the Senior Loan Portfolio, are expected to be minimized when resulting from changes in short-term interest rates. See “Investment Guidelines of the Senior Loan Trust – Description of Senior Loans”.

In order to enhance the yield available to Unitholders, the Senior Loan Trust intends to utilize leverage by borrowing an amount representing not more than 100% of the value of its pre-leverage net assets under a senior secured credit facility provided by an initial conduit lender, with liquidity support being provided to the conduit lender through a 364-day committed liquidity facility established by The Bank of Nova Scotia. See “Investment Guidelines of the Senior Loan Trust – Borrowing and Use of Leverage”.

The Senior Loan Trust intends to hedge its foreign currency exposure. The Sub-Advisor (as defined below) will manage the Senior Loan Trust primarily in United States dollars. It is expected that at least 90% of the U.S. currency risk of the Senior Loan Trust will be hedged back to the Canadian dollar at all times. See “Investment Guidelines of the Senior Loan Trust – Currency Hedging”.

First Trust Advisors L.P. (the “Advisor”) has been retained to act as the investment advisor of the Fund and the Senior Loan Trust and will be responsible for the services provided by the Sub-Advisor to the Senior Loan Trust. The Advisor provides asset management, investment advisory and unit trust portfolio supervision services to its clients and had approximately U.S.\$17.26 billion in assets under management or supervision as of April 30, 2005. The Advisor, its affiliates and associates have over 200 employees in North America, including 27 investment professionals and research staff. See “Advisor”. The Advisor will implement the Fund’s overall investment strategy which includes the acquisition of the Common Share Portfolio and the entering into of the Forward Agreement. The Advisor will monitor the investment advisory and portfolio management services provided by the Sub-Advisor to the Senior Loan Trust.

Highland Capital Management, L.P. (the “Sub-Advisor”) has been retained by the Advisor to act as the sub-advisor to the Senior Loan Trust and will actively manage the Senior Loan Portfolio. The Sub-Advisor specializes in managing portfolios of Senior Loans and structured finance assets. As of March 31, 2005, the Sub-Advisor managed and advised portfolios with approximately U.S.\$13.9 billion of assets under management. The Sub-Advisor was founded by its principals in 1993 and presently has a team of 41 investment professionals working in offices in Dallas, New York and London. See “Sub-Advisor”.

FT (NSI) Floating Rate Management Co. (the “Manager”), a wholly-owned subsidiary of First Defined Portfolio Management Co. and an affiliate of the Advisor, is the trustee of the Fund and the Senior Loan Trust and is responsible for providing or arranging for the provision of administrative services required by the Fund and the Senior Loan Trust and for engaging and monitoring the Advisor. An affiliate of the Manager is the manager of First Trust/Highland Capital Floating Rate Income Fund (TSX: FHT.UN), a closed-end investment fund launched in February 2005 which raised \$195,700,000 in its initial public offering. See “Manager”.

Price: \$10.00 per Unit
Minimum Purchase: 200 Units

	<u>Price to Public⁽¹⁾</u>	<u>Agents' Fee</u>	<u>Net Proceeds to the Fund⁽²⁾</u>
Per Unit.....	\$10.00	\$0.50	\$9.50
Maximum Offering ⁽³⁾⁽⁴⁾	\$150,000,000	\$7,500,000	\$142,500,000
Minimum Offering ⁽⁴⁾	\$50,000,000	\$2,500,000	\$47,500,000

- (1) The offering price was established by negotiation between the Manager, on behalf of the Fund, and the agents of the offering (the “Agents”).
- (2) Before deducting the expenses of issue which are estimated to be \$700,000, subject to a maximum of 1.50% of the gross proceeds of the offering, which, together with the Agents’ fee, will be paid out of the proceeds of the offering.
- (3) There will be no closing unless at least 5,000,000 Units are sold. The maximum offering assumes that 15,000,000 Units are sold.
- (4) The Fund has granted the Agents an option (the “Over-Allotment Option”) exercisable for a period of 30 days from the closing of the offering, to offer up to 15% of the aggregate number of Units sold at the closing on the same terms as set forth above. This prospectus qualifies the distribution of the Over-Allotment Option and the Units issuable on the exercise thereof. If the Over-Allotment Option is exercised in full, the total proceeds raised under the maximum offering will be \$172,500,000, the Agents’ fee will be \$8,625,000 and the net proceeds to the Fund will be \$163,875,000. See “Plan of Distribution”.

There is currently no market through which the Units may be sold and purchasers may not be able to resell securities purchased under this prospectus. The terms of the offering were established through negotiation between the Agents and the Manager, on behalf of the Fund.

See “Risk Factors” for a discussion of certain factors that should be considered by prospective investors in Units. There can be no assurance that the Fund will be able to achieve its investment objectives. An investment in the Fund is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment and who can withstand the effect of a distribution not being made in any period.

Provided that the Fund qualifies as a “mutual fund trust” within the meaning of the *Income Tax Act* (Canada) (the “Tax Act”), the Units offered hereby will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans or registered education savings plans. Based on the current provisions of the Tax Act, provided that the Fund qualifies as a mutual fund trust and complies with its investment restrictions relating to the acquisition and holding of foreign property, Units will not constitute foreign property for the purposes of the tax imposed under Part XI of the Tax Act. If these conditions are not satisfied, Units may be foreign property in certain circumstances. On February 23, 2005, the Minister of Finance (Canada) proposed that the limit in respect of foreign property that may be held by registered pension plans, registered retirement savings plans and other deferred plans be eliminated for 2005 and subsequent years.

The Toronto Stock Exchange has conditionally approved the listing of Units, subject to the fulfillment by the Fund of the requirements of such stock exchange on or before July 27, 2005, including distribution to a minimum number of Unitholders. The Units will be listed for trading under the symbol “FHM.UN”.

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

CIBC World Markets Inc., RBC Dominion Securities Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc., TD Securities Inc., HSBC Securities (Canada) Inc., Raymond James Ltd., Richardson Partners Financial Limited, Canaccord Capital Corporation, Desjardins Securities Inc., Dundee Securities Corporation, First Associates Investments Inc. and Wellington West Capital Inc., collectively as Agents, conditionally offer the Units for sale, subject to prior sale, on a best efforts basis, if, as and when issued by the Fund in accordance with the conditions contained in the Agency Agreement referred to under “Plan of Distribution” and subject to the approval of certain legal matters by Fasken Martineau DuMoulin LLP and, with respect to U.S. tax matters, Chapman and Cutler LLP, on behalf of the Fund, and by Davies Ward Phillips & Vineberg LLP, Toronto and New York, on behalf of the Agents. This prospectus also qualifies the distribution of a right entitling the Manager to receive, upon exercise on or before the last Business Day of each month, payment of its management fee in Units. See “Fees and Expenses”.

Scotia Capital Inc., one of the Agents, is an affiliate of The Bank of Nova Scotia, the chartered bank which will enter into the Forward Agreement with the Fund and will provide liquidity support to the initial conduit lender under the secured credit facility of the Senior Loan Trust. Scotia Capital Inc. also acts as administrator and agent for the initial conduit lender. Scotiabank (Ireland) Limited will facilitate the warehousing program described under “Investment Guidelines of the Senior Loan Trust – Investment Portfolio – Warehouse Program”. Consequently, the Fund may be considered a “connected issuer” of Scotia Capital Inc. under applicable securities legislation. Scotia Capital Inc. will receive no benefit in connection with this offering other than receiving a portion of the Agents’ fee and a portion of the service fee described under “Fees and Expenses”. See also “Plan of Distribution”.

Subscriptions for Units will be received subject to rejection or allotment in whole or in part and the Fund reserves the right to close the subscription books at any time without notice. The Agents may over-allot or effect transactions as described under “Plan of Distribution”. Registrations of interests in and transfers of Units will be made only through the book-based system administered by The Canadian Depository for Securities Limited (“CDS”). A book-entry only certificate representing the Units will be issued in registered form only to CDS or its nominee and will be deposited with CDS on the closing date of the offering which is expected to occur on or about May 31, 2005 or such later date as the Fund and the Agents may agree, but in any event not later than July 29, 2005. A purchaser of Units will receive only a customer confirmation from the registered dealer from or through which the Units are purchased, and will not have the right to receive physical certificates evidencing their ownership in the Units. See “Details of the Offering - Delivery Form and Denomination”.

Although units of the Senior Loan Trust are not being offered to the public, the Fund has agreed to obtain a receipt for a prospectus of the Senior Loan Trust from the Autorité des marchés financiers. The Fund has also agreed to deliver or arrange for delivery of a copy of such prospectus to purchasers of Units in the Province of Québec prior to such purchase of Units by any person in the Province of Québec.

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FORWARD-LOOKING STATEMENTS

Certain statements included in this prospectus constitute forward-looking statements including those identified by the expressions “intend”, “anticipate”, “believe”, “estimate”, “expect”, and similar expressions to the extent they relate to the Fund, Manager, Advisor, Sub-Advisor or the Senior Loan Trust. These forward-looking statements are not historical facts but reflect current expectations regarding future results or events. These forward looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including matters discussed under “Risk Factors” and in other sections of this prospectus.

SUMMARY

The following is a summary of the principal features of the Offering and should be read together with the more detailed information contained elsewhere in this prospectus. Certain capitalized terms used, but not defined, in this summary are defined in the "Glossary of Terms". Unless otherwise indicated, all references to dollar amounts in this prospectus are references to Canadian dollars.

Issuer: First Trust/Highland Capital Floating Rate Income Fund II is a trust established by declaration of trust dated May 16, 2005 under the laws of the Province of Ontario. See "The Fund".

Offering: The offering consists of redeemable, transferable Units of the Fund.

Maximum Issue: \$150,000,000 (15,000,000 Units)

Minimum Issue: \$50,000,000 (5,000,000 Units)

Price: \$10.00 per Unit

Minimum Subscription: \$2,000 (200 Units)

Rationale for the Fund: The Fund will provide exposure to a portfolio comprised primarily of Senior Loans issued by debtors that are primarily U.S. issuers. The distributions of the Fund will vary with prevailing U.S. short-term interest rates and are expected to consist primarily of capital gains and returns of capital. The Fund's distributions are intended to benefit Unitholders since returns of capital are generally not subject to tax (but reduce the adjusted cost base of the Units) and distributions of capital gains will generally be taxed at a lower rate than distributions of interest and other ordinary income.

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

- (i) provide Unitholders with tax efficient monthly distributions which will fluctuate with changes in U.S. short-term interest rates and are expected to consist primarily of capital gains and returns of capital; and
- (ii) preserve and enhance the NAV per Unit in order to return the original subscription price of the Units (\$10.00 per Unit) to Unitholders on or about May 31, 2015.

The return to Unitholders and the Fund will be dependent upon the return on the Senior Loan Portfolio by virtue of the Forward Agreement. The Senior Loan Portfolio will, under normal market conditions, consist primarily of Senior Loans. The Fund will not make a direct investment in the Senior Loan Trust.

Investment Strategy of the Fund: In order to meet its investment objectives, the Fund intends to obtain exposure to the performance of the Senior Loan Trust by virtue of the Forward Agreement. The Fund will not invest directly in the Senior Loan Trust. The Fund will invest the net proceeds of the Offering in the Common Share Portfolio. Under the Forward Agreement, the Fund will be entitled to sell securities in the Common Share Portfolio from time to time to fund monthly distributions, redemptions and repurchases of Units, its operating expenses and other liabilities and general liquidity requirements. The purchase price payable by the Counterparty will be calculated by reference to the redemption proceeds of a Notional Investment in units of the Senior Loan Trust. The Notional

Investment will be reduced proportionately to reflect the redemption and repurchase of Units. The return to Unitholders is intended to correlate with an investment in the Senior Loan Trust, subject to expenses incurred by the Fund. Accordingly, the return to the Unitholders and the Fund will be dependent upon the return on the Senior Loan Trust and the Senior Loan Portfolio by virtue of the Forward Agreement. Neither the Fund nor the Unitholders will have any ownership interest in the Senior Loan Portfolio.

It is a condition of the Forward Agreement that the long-term debt of the Counterparty will be rated at least A by Standard & Poor's or have an equivalent rating from DBRS or another NRSRO.

Senior Loan Trust:

First Trust/Highland Capital Senior Loan Trust is a trust established for the purpose of acquiring the Senior Loan Portfolio. The Senior Loan Trust seeks to generate returns from (i) income earned on Senior Loans and other investments comprising the unleveraged portion of the Senior Loan Trust's assets, and (ii) the spread between income earned, if any, on Senior Loans and other investments comprising the leveraged portion of the Senior Loan Trust's assets and the cost of borrowing used to finance such assets.

Currency Hedging Strategy:

The Senior Loan Trust may invest in or use derivative instruments for hedging, investment or leverage purposes consistent with the Investment Guidelines of the Senior Loan Trust. Risks to be hedged against include fluctuations in currency values. The NAV is measured in Canadian dollars and payments to Unitholders will be made in Canadian dollars but most of the Senior Loan Trust's investments, at any time, will consist primarily of securities denominated in currencies other than the Canadian dollar. The Senior Loan Trust will be managed primarily in United States dollars. It is expected that at least 90% of the U.S. currency risk of the Senior Loan Trust will be hedged back to the Canadian dollar at all times.

While the Senior Loan Trust intends to purchase forward contracts or utilize cross-currency swaps for currency hedging, it may also use other derivatives, such as over-the-counter put and call options on foreign currencies.

See "Investment Guidelines of the Senior Loan Trust – Currency Hedging" and "Risk Factors – Foreign Currency Exposure".

Senior Loan Portfolio:

The Senior Loan Portfolio will consist primarily of an actively managed portfolio of Senior Loans, issued by debtors that are primarily U.S. issuers.

Senior Loans generally hold the most senior position in the capital structure of a Borrower, are typically secured with specific collateral and have a claim on the assets of the Borrower that is senior to that held by the subordinated debtholders and shareholders of the Borrower. Senior Loans typically pay floating rates of interest based on a base lending rate, plus a spread. Yields on Senior Loans generally move in the same direction as U.S. short-term interest rates. As a result, as U.S. short-term interest rates increase, the return on the Senior Loans included in the Senior Loan Portfolio should increase and, as U.S. short-term interest rates decrease, the return on the Senior Loans included in the Senior Loan Portfolio should decrease. See "Investment Guidelines of the Senior Loan Trust – Description of Senior Loans".

The Senior Loan Trust may also invest, to a limited extent, in U.S. dollar denominated Senior Loans of non-U.S. issuers. In addition, the Senior Loan Trust may have a limited portion of its assets invested in Senior Loans of distressed issuers and debt and equity securities of issuers issued in connection with a restructuring or reorganization of the debt of such issuers.

In keeping with its active management strategy, the composition of the Senior Loan Portfolio will vary over time depending on the assessment of market conditions and outlook by Highland Capital Management, L.P. (the “Sub-Advisor”). The Sub-Advisor currently contemplates that the Senior Loan Portfolio once fully invested will initially be allocated among the types of securities in the target ranges shown below.

	Expected Initial Asset Allocation	Permitted Range Weighting
Senior Loans		
<i>Senior Secured U.S. issuers</i>	84%	80-100%
<i>Non-U.S. issuers</i>	0%	0-10%
<i>Special Situation Investments</i>	16%	0-20%
Cash and Cash Equivalents	0%	0-20% ⁽¹⁾

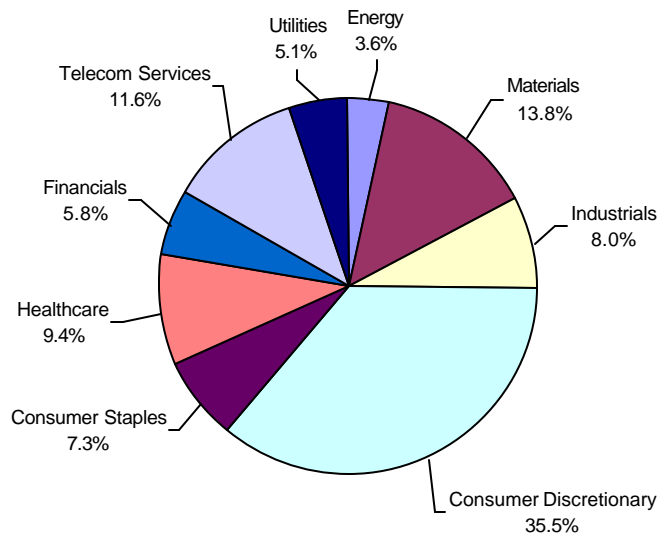
- (1) For temporary defensive purposes, the Senior Loan Trust may depart from its principal investment strategies and invest part or all of its assets in Cash and Cash Equivalents. During such periods, the Fund may not be able to achieve its investment objectives. See “Investment Guidelines of the Senior Loan Trust - Investment Restrictions”.

The initial Senior Loan Portfolio of the Senior Loan Trust is expected to be diversified by company, industry and credit quality. Assets of the Senior Loan Trust will be selected based on their expected return relative to risk characteristics, taking into consideration factors such as credit quality and duration.

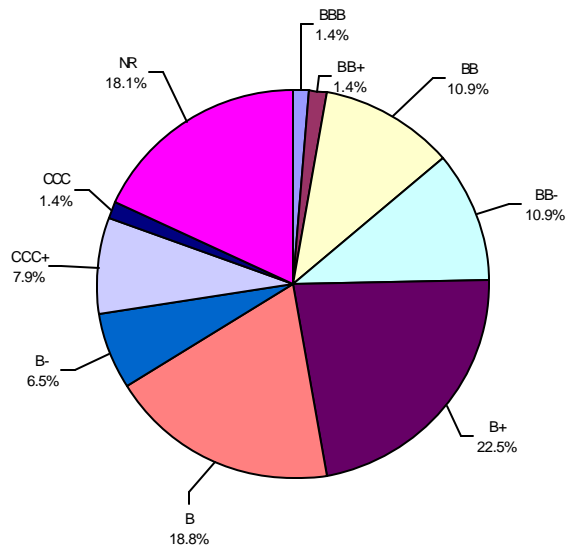
See “Investment Guidelines of the Senior Loan Trust” and “Risk Factors”.

Based on a sample portfolio of Senior Loans indicative of the initial Senior Loan Portfolio that the Senior Loan Trust intends to invest in, it is anticipated that the initial Senior Loan Portfolio will be allocated among the industry and credit quality allocations shown below.

Illustrative Initial Senior Loan Portfolio Allocation By Industry



Illustrative Initial Senior Loan Portfolio Allocation By Credit Rating⁽¹⁾



(1) Based on Standard & Poor's credit ratings.

The above charts are for informational purposes only. There is no assurance that the sector weighting of the securities in the initial Senior Loan Portfolio will be as set forth above. The sector weightings and the diversification of the portfolio (by issuer, industry and credit quality) will depend on various factors, including the Sub-Advisor's assessment of the market conditions at the time of investment and the size of the Offering.

Manager:

FT (NSI) Floating Rate Management Co. (the "Manager") is the trustee of the Fund and the Senior Loan Trust. The Manager, a company incorporated pursuant to the laws of the Province of Nova Scotia and an affiliate of the Advisor, is responsible for providing or arranging for the provision of administrative services required by the Fund and the Senior Loan Trust and for engaging and monitoring the Advisor. The Manager is a wholly-owned subsidiary of First Defined Portfolio Management Co., a promoter of the Fund. An affiliate of the Manager is the manager of First Trust/Highland Capital Floating Rate Income Fund (TSX: FHT.UN), a closed-end investment fund launched in February 2005 which raised \$195,700,000 in its initial public offering. See "Manager".

Advisor:

First Trust Advisors L.P. has been retained to act as the investment advisor of the Fund and the Senior Loan Trust. The Advisor is responsible for the implementation of the Fund's overall investment strategy which includes the acquisition of the Common Share Portfolio and the entering into of the Forward Agreement. The Advisor will also be responsible for the investment strategy of the Senior Loan Trust and will be responsible to the Senior Loan Trust for the services provided by the Sub-Advisor which the Advisor will monitor. The Advisor is an Illinois limited partnership that provides asset management, investment advisory and unit trust portfolio supervision services to its clients and had approximately U.S.\$17.26 billion in assets under management or supervision as of April 30, 2005. The Advisor, its affiliates and

associates have over 200 employees in North America, including 27 investment professionals and research staff. See “Advisor”.

Sub-Advisor:

Highland Capital Management, L.P. has been retained to act as sub-advisor to the Senior Loan Trust and is responsible for preparing and executing the Senior Loan Trust’s investment strategy, subject to its services being monitored by the Advisor. The Sub-Advisor specializes in managing portfolios of Senior Loans and structured finance assets and as of March 31, 2005, managed and advised portfolios with approximately U.S.\$13.9 billion of assets under management.

The Sub-Advisor, a Delaware limited partnership, was founded in 1993 by an experienced team of Senior Loan investment professionals. It presently has a team of 41 investment professionals working in offices in Dallas, New York and London. See “Sub-Advisor”.

Leverage:

The Senior Loan Trust intends to use leverage when the Advisor and Sub-Advisor consider that market conditions are appropriate, to attempt to increase the potential returns of the Senior Loan Trust by taking advantage of the spread between the Senior Loan Trust’s potential return on additional investments and the cost of borrowing the amounts needed to acquire investments.

The Senior Loan Trust intends to borrow an amount representing not more than 100% of the value of its pre-leverage net assets (being an asset-to-equity ratio of 2:1) under a senior secured credit facility provided by an initial conduit lender, with liquidity support being provided to the conduit lender through a 364-day committed liquidity facility established by The Bank of Nova Scotia.

Leverage creates a greater risk of loss, as well as potential for greater gain, for the Senior Loan Trust than if leverage is not used. Repayment of principal and interest on borrowings of the Senior Loan Trust will rank ahead of payments or distributions on the units of the Senior Loan Trust. Costs of borrowing by the Senior Loan Trust and other up front costs will result in a reduction of the NAV per Unit. See “Investment Guidelines of the Senior Loan Trust – Borrowing and Use of Leverage” and “Risk Factors – Leverage Risk”.

Assuming that the Leveraged Assets will represent approximately 50% of the capital of the Senior Loan Trust, the table below is furnished to illustrate the effect of leverage on the total return of the Fund. Unit total return is comprised of the distributions paid by the Fund to the holders of Units (the amount of which is largely determined by the net investment income of the Senior Loan Trust after paying interest on its Leveraged Assets and gains or losses on the value of the securities the Senior Loan Trust owns).

The table assumes investment portfolio total returns (comprised of income and changes in the value of securities held in the Senior Loan Portfolio) of (10%), (5%), 0%, 5% and 10%. These assumed investment portfolio returns are hypothetical figures and are not necessarily indicative of the investment portfolio returns experienced or to be experienced by the Senior Loan Trust. See “Risk Factors”.

The table reflects Leveraged Assets representing 50% of the capital of the Senior Loan Trust, net of expenses and the currently projected interest expense of the Senior Loan Trust of 3.08%. Actual interest rates on the Leveraged Assets will vary frequently and may be significantly higher or lower than the rate estimated above.

Illustration of Effects of Leverage

Assumed Senior Loan Portfolio Total Return (Net of Expenses)	(10%)	(5%)	0	5%	10%
Total Return of the Fund	(22.84%)	(15.38%)	(5.96%)	3.46%	12.88%

Distributions:

An objective of the Fund is to provide monthly distributions to Unitholders of record on the last business day of each month. The initial monthly distribution of the Fund is expected to be an amount per Unit which, if sustained at that rate, would represent an annualized yield of approximately 6.0% on the subscription price of \$10.00 per Unit. See “Investment Guidelines of the Senior Loan Trust - Investment Strategies”. The Manager expects that the initial monthly distribution will be payable to Unitholders of record on July 29, 2005. Thereafter, the distributions will be determined and announced on a monthly basis by the Manager. The payment of the Management Fee in Units will have the effect of providing additional cash flow for distributions to Unitholders but will result in a dilution to the NAV per Unit equivalent to the cash payment of the Management Fee. See “Fees and Expenses”.

Distributions will be paid no later than the tenth business day of the following month. The Fund’s monthly distributions to Unitholders will correspond to the yield of the Senior Loan Trust less expenses incurred by the Fund including fees payable in connection with the Forward Agreement. The Senior Loan Trust’s yield is expected to vary with U.S. short-term interest rates. As a result, monthly distributions will fluctuate.

Distributions of the Fund are expected to consist of returns of capital and capital gains for income tax purposes. These distributions are intended to benefit Unitholders since returns of capital are generally not subject to tax (but reduce the adjusted cost base of the Units) and distributions of capital gains will generally be taxed at a lower rate than distributions of interest and other ordinary income. The level of distributions paid by the Fund to Unitholders will depend upon payments received by the Fund under the Forward Agreement which in turn depend upon the distributions received by the Senior Loan Trust from the Senior Loans and other investments included in the Senior Loan Portfolio and therefore is expected to fluctuate from month to month. Under the terms of the Forward Agreement, if the Senior Loan Trust fails to pay distributions on its units corresponding to the Fund’s targeted distributions, the Counterparty will defer payment in respect of the Forward Agreement until such time as the distributions are reinstated. In such circumstances, the Fund would be unable to pay its targeted distributions.

There can be no assurance that the Fund will be able to achieve its monthly distribution objective or make payments on any distribution payment date.

If in any year after such monthly distributions, there would otherwise remain in the Fund additional net income or net realized capital gains, the Fund intends to make, on or before December 31st of that year, a special distribution, paid in Units unless the Manager otherwise determines, of such portion of the remaining net income and net realized capital gains as is necessary to ensure that the Fund will not be liable for income tax thereon under the Tax Act.

See “Distributions”.

Redemptions:

Units may be surrendered for redemption not more than 60 days, and at least 30 days, prior to the second last business day in June of any year (the “Annual Redemption

Date”), beginning in 2006, for a redemption price per Unit equal to the NAV per Unit of the Fund as determined on the Annual Redemption Date less any expenses incurred by the Fund including those incurred to partially settle the Forward Agreement and brokerage costs. The NAV per Unit will, by virtue of the Forward Agreement, be dependent upon the performance of the Senior Loan Trust. Units surrendered for redemption by a Unitholder in accordance with the foregoing will receive the redemption proceeds on or before the tenth business day following the Annual Redemption Date.

In addition to the annual redemption right, Units may be surrendered for redemption at least 20 Business Days prior to the second last Business Day of each month, commencing in August 2005 (the “Monthly Redemption Date”), except for the month of June (when Units may only be surrendered for redemption pursuant to the annual redemption right described above). Unitholders whose Units are redeemed on any Monthly Redemption Date will receive a redemption price per Unit equal to the lesser of (i) 95% of the Market Price of the Units, and (ii) 100% of the Closing Market Price of the Units on the applicable Monthly Redemption Date less, in each case, any costs associated with the redemption, including expenses related to partial settlement of the Forward Agreement and brokerage costs. See “Redemption of Units” and “Risk Factors”.

The Fund may suspend the redemption of Units or payment of redemption proceeds in certain circumstances. In addition, under the Forward Agreement, if the Senior Loan Trust suspends redemptions or otherwise does not pay redemption proceeds, the Counterparty will suspend payment in respect of a settlement of the Forward Agreement until such time as such redemptions are reinstated. In such circumstances, the Fund may be unable to pay the redemption proceeds in respect of Units tendered for redemption.

Additional Issues of Units:

Other than the issue of Units upon the exercise by the Manager of its option to receive payment of its Management Fee in Units, as described under “Fees and Expenses - Management Fee”, and the issue of Units by way of Unit distributions, the Fund will not issue Units for net proceeds per Unit less than the NAV per Unit calculated on the date immediately prior to the entering into of the commitment by one or more subscribers to purchase such Units or prior to the pricing of the Offering, without the prior approval of Unitholders by Extraordinary Resolution.

Termination of the Fund:

The Fund will terminate on May 31, 2015, unless terminated earlier or extended. Thereafter, its net assets will be distributed to Unitholders. The Fund may also be terminated if the Manager resigns and is not replaced. See “Declaration of Trust – Termination of the Fund”.

Market Purchases of Units:

To enhance liquidity and to provide market support for the Units, the Fund will have a mandatory market purchase program pursuant to which the Fund will, subject to certain exceptions contained in the Declaration of Trust (as described under “Declaration of Trust – Repurchase of Units”) and in compliance with any applicable regulatory requirements, be obligated to purchase for cancellation any Units offered in the market at the then prevailing market price if, at any time following the Closing Date, the price at which Units are then offered for sale is less than 95% of the NAV per Unit determined as at the close of business in Toronto, Ontario on the immediately preceding Business Day. The maximum number of Units to be purchased in any three month period (commencing with the three month period that begins on the first day of the month following the Closing Date) will be 1.25% of the number of Units outstanding at the beginning of such period.

The Declaration of Trust provides that, subject to applicable law, the Fund may, in its sole discretion, from time to time, purchase (in the open market or by invitation for tenders) Units for cancellation up to a maximum in any 12-month period of 10% of the number of applicable Units outstanding at the commencement of such period, in all cases at a price per Unit not exceeding the NAV per Unit on the Valuation Date immediately prior to the date of any such purchase of Units. See “Declaration of Trust – Repurchase of Units”.

Use of Proceeds:

The net proceeds from the issue of the maximum number of Units offered hereby after payment of the Agents’ fee and the Offering expenses are estimated to be \$141,500,000 (\$46,500,000 if the minimum number of Units are issued). The Fund will invest the net proceeds of the Offering (including any net proceeds from the exercise of the Over-Allotment Option) in the Common Share Portfolio which will be subject to the Forward Agreement.

Canadian Federal Income Tax Considerations:

A Unitholder will generally be required to include in computing income for a taxation year that part of the Fund’s net income, including the taxable portion of the net realized capital gains, if any, of the Fund that is paid or becomes payable to the Unitholder by the Fund in that year. Provided the Fund elects in accordance with the Tax Act to have each of its Canadian securities (including Common Share Portfolio securities) treated as capital property, gains or losses realized by the Fund on the sale of Canadian securities will be taxed as capital gains or capital losses. Distributions by the Fund to a Unitholder in excess of the Unitholder’s share of the Fund’s net income and net realized capital gains will reduce the adjusted cost base of the Unitholder’s Units. To the extent that the adjusted cost base of a Unit held as capital property would otherwise be less than zero, the Unitholder will be deemed to have realized a capital gain equal to that negative amount.

A Unitholder who disposes of Units held as capital property (on redemption or otherwise) will realize a capital gain (or capital loss) to the extent that the proceeds of disposition (other than any amount payable by the Fund which represents an amount that is otherwise required to be included in the Unitholder’s income), net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such Units. See “Canadian Federal Income Tax Considerations”. Each investor should satisfy himself or herself as to the federal and provincial tax consequences of an investment in Units by obtaining advice from his or her tax advisor.

Eligibility for Investment:

In the opinion of Fasken Martineau DuMoulin LLP, counsel to the Fund, and Davies Ward Phillips & Vineberg LLP, counsel to the Agents, provided that the Fund qualifies as a “mutual fund trust” within the meaning of the Tax Act, the Units offered hereby will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred

profit sharing plans or registered education savings plans. Based on the current provisions of the Tax Act, provided that the Fund qualifies as a mutual fund trust and complies with its investment restrictions relating to the acquisition and holding of foreign property, Units will not constitute foreign property for the purposes of the tax imposed under Part XI of the Tax Act. If these conditions are not satisfied, Units may be foreign property in certain circumstances. On February 23, 2005, the Minister of Finance (Canada) proposed that the limit in respect of foreign property that may be held by registered pension plans, registered retirement savings plans and other deferred plans be eliminated for 2005 and subsequent years.

Risk Factors:

An investment in Units is subject to certain risk factors, including:

- (i) the Fund's lack of operating history and the current absence of a public trading market for Units;
- (ii) the credit risk associated with the assets in the Senior Loan Trust;
- (iii) the ability to realize on collateral securing Senior Loans;
- (iv) the risks of investing in Senior Loans that are below Investment Grade;
- (v) the ongoing monitoring of Senior Loans by agents;
- (vi) the risk of prepayment of a Senior Loan;
- (vii) the risk of limited public information being available with respect to Senior Loans;
- (viii) the risks associated with interest rate changes and the sensitivity of the market price of Units to interest rates;
- (ix) that Units may trade in the market at a premium or a discount to the NAV per Unit and there can be no assurance that Units will trade at a price equal to the NAV per Unit;
- (x) the risks associated with the use of leverage by the Senior Loan Trust;
- (xi) restrictive covenants imposed in connection with the secured leverage borrowing program of the Senior Loan Trust;
- (xii) the effects in the secondary market on the issuance of further Units;
- (xiii) the limited liquidity of Senior Loans and the secondary market upon which Senior Loans trade;
- (xiv) the valuation of Senior Loans;
- (xv) the supply of and demand for Senior Loans;
- (xvi) there is no assurance that the Fund will be able to pay monthly distributions or satisfy redemption requests;
- (xvii) Counterparty risks associated with the Forward Agreement;
- (xviii) the fact that if, contrary to the advice of counsel to the Fund and to the Agents or as a result of a change of law, upon physical settlement of the Forward Agreement the character and timing of the gain under the Forward Agreement were other than a capital gain on the sale of the securities thereunder, after-tax returns to Unitholders could be reduced and the Fund could be subject to non-refundable income tax from such transactions;
- (xix) reference portfolio risk;

- (xx) the risks associated with investments in unsecured loans and subordinated loans;
- (xxi) the risks associated with investments in short-term debt securities;
- (xxii) the risks associated with investments by the Senior Loan Trust in equity securities incidental to investment in Senior Loans;
- (xxiii) the risks associated with investments by the Senior Loan Trust in non-U.S. securities and debt investments;
- (xxiv) reliance on the Sub-Advisor;
- (xxv) the foreign organization and offices of the Advisor and the fact that all or a substantial portion of its assets are situated outside Canada may make it more difficult to enforce legal rights against the Advisor than if it was organized and resident in Canada;
- (xxvi) the risks of engaging in hedging and risk management transactions;
- (xxvii) counterparty risks associated with securities lending;
- (xxviii) reinvestment risks;
- (xxix) risk of regulatory changes;
- (xxx) market event risks such as acts of terrorism;
- (xxxi) the risks relating to the nature of the Units;
- (xxxii) the risk of foreign currency exposure;
- (xxxiii) status of the Fund for securities law purposes;
- (xxxiv) the potential liability of Unitholders;
- (xxxv) decreased diversification for minimum offering;
- (xxxvi) possible changes in tax legislation; and
- (xxxvii) the risk of the potential imposition of U.S. tax on the Senior Loan Trust.

See “Risk Factors”.

Auditors, Valuation Agent, Transfer Agent, Registrar and Custodian:

The Fund has retained Deloitte & Touche LLP as auditors for the Fund. The Transfer Agent will act as transfer agent, registrar and distribution agent for the Units. The Custodian will act as custodian of the Fund and the Valuation Agent will act as valuation agent for the Fund. The Manager will be responsible for monitoring the activities of the auditors, valuation agent, transfer agent, and custodian. See “Auditors, Valuation Agent, Transfer Agent, Registrar and Custodian.”

SUMMARY OF FEES AND EXPENSES

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

<u>Type of Charge</u>	<u>Description</u>
Fees payable to the Agents:	\$0.50 per Unit (5.0%).
Expenses of Issue:	The Fund and the Senior Loan Trust will pay the expenses incurred in connection with the Offering, which are estimated to be \$700,000 subject to a maximum of 1.50% of the gross proceeds of the Offering. The Manager has agreed to pay all expenses incurred in connection with the Offering that exceed 1.5% of the gross proceeds of the Offering. In addition, the Senior Loan Trust will incur one-time leverage implementation costs of approximately \$300,000 in connection with the structuring and negotiation of the credit facility. These implementation costs include legal fees, due diligence expenses and a commitment fee.
Management Fee:	As compensation for its management services rendered to the Fund and the Senior Loan Trust, the Manager is entitled to receive an annual management fee from the Fund and the Senior Loan Trust which in aggregate is equal to 0.75% of Managed Assets (as defined below) calculated and payable monthly in arrears plus applicable taxes. “Managed Assets” means, in respect of any particular month, the average daily gross asset value of the Senior Loan Trust during such month (including assets attributable to the principal amount of borrowings) minus the sum of the Senior Loan Trust’s accrued liabilities as at the end of such month (other than the principal amount of any borrowings incurred). In this regard, if the Senior Loan Trust uses leverage in the amount equal to 100% of its pre-leverage net assets, the Management Fee will be 1.5% of net assets of the Senior Loan Trust. The Manager has been granted the right to receive up to 100% of the Management Fee, excluding applicable taxes, in Units, at its option. Such Units will be issued at NAV per Unit on the payment date. The distribution of Units as full or partial payment of the Management Fee will result in a dilution of the NAV per Unit. The Manager, in its capacity as trustee of the Fund, is responsible for payment of fees to the Advisor. The Advisor is responsible for payment of fees to the Sub-Advisor.
Service Fee:	A service fee will be paid by the Fund to each registered dealer whose clients hold Units. The service fee will be calculated and paid at the end of each calendar quarter and will be equal to 0.40% annually of the NAV of the Units held by clients of the registered dealer.
On-going expenses of the Fund:	The amounts payable by the Counterparty to the Fund under the Forward Agreement will be reduced by approximately 0.45% per annum on the value of the Notional Investment in units of the Senior Loan Trust and 0.15% per annum on the value of the Common Share Portfolio.

Each of the Fund and the Senior Loan Trust will pay all on-going expenses incurred in connection with its operation and administration, estimated to be approximately \$400,000 per annum in the aggregate, being \$300,000 per annum for the Fund and \$100,000 per annum for the Senior Loan Trust. See “Fees and Expenses – On-going Expenses”. Each of the Fund and the Senior Loan Trust will also be responsible for taxes, interest expense and the costs of portfolio transactions, as well as any extraordinary expenses which may be incurred from time to time and, for the Senior Loan Trust, any debt service costs and costs of currency hedging. See “Fees and Expenses”.

GLOSSARY OF TERMS

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

“**Advisor**” means First Trust Advisors L.P., the investment advisor of the Fund and the Senior Loan Trust, or, if applicable, its successor.

“**Agency Agreement**” means the agency agreement dated as of May 16, 2005 among the Fund, the Senior Loan Trust, the Manager, First Defined Portfolio Management Co., the Sub-Advisor, the Advisor and the Agents.

“**Agents**” means, collectively, CIBC World Markets Inc., RBC Dominion Securities Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc., TD Securities Inc., HSBC Securities (Canada) Inc., Raymond James Ltd., Richardson Partners Financial Limited, Canaccord Capital Corporation, Desjardins Securities Inc., Dundee Securities Corporation, First Associates Investments Inc. and Wellington West Capital Inc.

“**Annual Redemption Date**” means the second last Business Day of June in each year commencing in 2006.

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

“**Borrower**” means a business entity issuing a Senior Loan.

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

“**Cash and Cash Equivalents**” means (i) cash on deposit; (ii) obligations issued or guaranteed by the Government of Canada or any province of Canada or the Government of the United States or any U.S. state or any agency or instrumentality thereof with less than twelve months to maturity, (iii) term deposits, guaranteed investment certificates, certificates of deposit or bankers’ acceptances of or guaranteed by any chartered bank or other financial institution, the short-term debt or deposits of which have been rated at least Investment Grade, and (iv) commercial paper rated at least Investment Grade either maturing within 365 days after the date of acquisition or for which the Advisor or Sub-Advisor believes that there will be a liquid market for the resale thereof within such 365-day period.

“**CDS**” means The Canadian Depository for Securities Limited.

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

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

“**Closing Date**” means the date of the Closing, which is expected to be on or about May 31, 2005 or such later date as the Fund and the Agents may agree, but in any event not later than July 29, 2005.

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

“**Common Share Portfolio**” means the portfolio of the Fund consisting primarily of common shares of Canadian public companies.

“**Counterparty**” means The Bank of Nova Scotia and/or such other Canadian financial institutions or their affiliates as the Fund may choose and includes, as applicable, any guarantor thereof.

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

“**Custodian**” means Canadian Imperial Bank of Commerce or such other person appointed as Custodian by the Fund, in its capacity as custodian of the Fund under the Custodial Services Agreement.

“**Custodial Services Agreement**” means the custodial services agreement to be entered into on or prior to the Closing Date between the Fund and the Custodian, as it may be amended from time to time.

“**DBRS**” means Dominion Bond Rating Service Limited.

“**Declaration of Trust**” means the declaration of trust governing the Fund dated as of May 16, 2005, as it may be amended from time to time.

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

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

“**FDIC**” means the Federal Deposit Insurance Corporation, an independent agency of the U.S. federal government.

“**Fitch Ratings**” means Fitch Ratings Inc.

“**Forward Agreement**” means one or more forward transactions between the Fund and the Counterparty, as may be amended from time to time.

“**Fund**” means First Trust/Highland Capital Floating Rate Income Fund II, an investment trust established under the laws of the Province of Ontario pursuant to the Declaration of Trust.

“**Fund Administration Services Agreement**” means the fund administration services agreement to be entered into on or prior to Closing, by the Fund and the Valuation Agent pursuant to which services will be provided for the determination of the Fund’s NAV.

“**Initial Notional Amount**” means an amount equal to the net proceeds of the Offering.

“**Investment Advisory Agreements**” means collectively the investment advisory agreement dated May 16, 2005 between the Manager, the Fund and the Advisor and the investment advisory agreement dated May 16, 2005 between the Manager, the Senior Loan Trust and the Advisor.

“**Investment Grade**” in respect of a security, means a security, and in respect of an issuer, means an issuer, which has at least one of the following ratings: (i) at least BBB- by Standard & Poor’s; (ii) at least BBB (low) by DBRS; (iii) at least BBB- by Fitch Ratings; or (iv) the equivalent rating by another NRSRO.

“**Investment Guidelines**” means the investment strategies, investment portfolio, form of investment in Senior Loans, borrowing and use of leverage, currency hedging and investment restrictions of the Senior Loan Trust, as described herein under “Investment Guidelines of the Senior Loan Trust”.

“**Investment Sub-Advisory Agreement**” means the investment sub-advisory agreement dated May 16, 2005 between the Advisor and the Sub-Advisor in respect of the Senior Loan Trust.

“**Leveraged Assets**” means the borrowing of the Senior Loan Trust of an amount representing not more than 100% of the value of its pre-leverage net assets under a senior secured credit facility.

“**LIBOR**” means the London Interbank Offered Rate of interest.

“**Managed Assets**” means, in respect of any particular month, the average daily gross asset value of the Senior Loan Trust during such month (including assets attributable to the principal amount of borrowings) minus the sum of the

Senior Loan Trust's accrued liabilities as at the end of such month (other than the principal amount of any borrowings incurred).

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

"Manager" means FT (NSI) Floating Rate Management Co., the trustee of the Fund, or, if applicable, its successor.

"Market Price" means the weighted average trading price on the TSX (or such other stock exchange on which the Units are listed, if the Units are no longer listed on the TSX) for the ten trading days immediately preceding the relevant Monthly Redemption Date.

"Monthly Redemption Date" means the second last Business Day of each month other than June commencing in August, 2005.

"Moody's" means Moody's Investor Services, Inc.

"NAV" means the net asset value of the Fund or Senior Loan Trust, as applicable, as determined by subtracting the aggregate liabilities of the Fund or Senior Loan Trust, as applicable, from its total assets, in each case on the date on which the calculation is being made, as more fully described under "Valuation".

"NAV per Unit" means the NAV of the Fund on a Valuation Date divided by the total number of Units outstanding on the Valuation Date.

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

"Notional Investment" means a notional investment at the time of Closing of an amount equal to the Initial Notional Amount in the Senior Loan Trust, as it may be reduced from time to time.

"NRSRO" means a nationally recognized statistical rating organization comparable to DBRS and Standard & Poor's.

"Offering" means the offering of a minimum of 5,000,000 Units and a maximum of 15,000,000 Units at \$10.00 per Unit and the offering of additional Units under the Over-Allotment Option pursuant to this prospectus.

"Ordinary Resolution" means a resolution passed by the affirmative vote of at least a majority of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of approving such resolution.

"Over-Allotment Option" means the option granted by the Fund to the Agents, exercisable for a period of 30 days from Closing, to offer additional Units at \$10.00 per Unit in an amount up to 15% of the aggregate number of Units sold on Closing, to cover over-allotments, if any.

"Prime Rate" means the prime rate of interest or base lending rate publicly announced by one or more United States commercial banks.

"Record Date" means the last Business Day of each month.

"Redemption Payment Date" means in relation to an Annual Redemption Date or Monthly Redemption Date, the later of (i) the date on or before the tenth Business Day after the Annual Redemption Date or Monthly Redemption Date, as applicable and (ii) the Business Day on which the Fund receives payment from the Counterparty in respect of a pre-settlement made under the Forward Agreement on or about such Annual Redemption Date or Monthly Redemption Date.

"Senior Loan" means a senior, secured, floating rate corporate loan.

“**Senior Loan Portfolio**” means the investment portfolio of the Senior Loan Trust consisting primarily of Senior Loans issued by debtors that are primarily U.S. issuers acquired by the Senior Loan Trust in accordance with the Investment Guidelines.

“**Senior Loan Trust**” means First Trust/Highland Capital Senior Loan Trust, an investment trust established pursuant to the laws of Ontario.

“**Service Fee**” means the fee that will be paid by the Fund to registered dealers, as more fully described under “Fees and Expenses – Service Fee”.

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

“**Sub-Advisor**” means Highland Capital Management, L.P., or if applicable, its successor.

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

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

“**Termination Date**” means May 31, 2015 or such other date as determined in accordance with the Declaration of Trust as more fully described under “Declaration of Trust – Termination of the Fund”.

“**Transfer Agent**” means the transfer agent, registrar and distribution agent, being CIBC Mellon Trust Company or such other person as appointed by the Fund.

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

“**Unit**” means a transferable, redeemable trust unit of the Fund, which represents an equal undivided beneficial interest in the net assets of the Fund.

“**Unitholder**” means an owner of one or more Units.

“**U.S.**” means the United States of America.

“**Valuation Agent**” means CIBC Mellon Global Securities Services Company or such other person appointed as Valuation Agent by the Fund.

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

THE FUND

The Fund is an investment trust established under the laws of the Province of Ontario pursuant to a declaration of trust dated May 16, 2005 executed by FT (NSI) Floating Rate Management Co., as the trustee of the Fund. The Fund's principal office is located at 330 Bay Street, Suite 1300, Toronto, Ontario, M5H 2S8.

The Fund's investment objectives are to (i) provide Unitholders with tax efficient monthly distributions which will fluctuate with changes in U.S. short-term interest rates and are expected to consist primarily of capital gains and returns of capital; and (ii) preserve and enhance the NAV per Unit in order to return the original subscription price of the Units (\$10.00 per Unit) to Unitholders on or about the Termination Date.

The return to Unitholders will be dependent upon the return on the Senior Loan Portfolio by virtue of the Forward Agreement. The Senior Loan Portfolio will consist primarily of Senior Loans. Neither the Fund nor the Unitholders will have an ownership interest in the Senior Loan Portfolio or the Senior Loan Trust.

In order to meet its investment objectives, the Fund intends to obtain exposure to the performance of the Senior Loan Trust by virtue of one or more forward transactions (collectively, the "Forward Agreement") with the Counterparty. The Fund will not invest directly in the Senior Loan Trust. The Fund will invest the net proceeds of the Offering in the Common Share Portfolio. Under the Forward Agreement, the Fund will be entitled to sell securities in the Common Share Portfolio from time to time to fund monthly distributions, redemptions and repurchases of Units, its operating expenses and other liabilities and general liquidity requirements. The purchase price payable by the Counterparty will be calculated by reference to the Notional Investment. As a result, Unitholders' returns are intended to correlate with an investment in the Senior Loan Trust, subject to the expenses incurred by the Fund. See "Investment Guidelines of the Fund - Forward Agreement". It is a condition of the Forward Agreement that the long-term debt of the Counterparty will be rated at least A by Standard & Poor's or have an equivalent rating from DBRS or another NRSRO.

The beneficial interest in the net assets and net income of the Fund is divided into a single class of transferable, redeemable Units, each of which represents an equal, undivided beneficial interest in the net assets and net income of the Fund.

The Fund is not considered to be a mutual fund under applicable Canadian securities legislation. Consequently, the Fund is not subject to the various policies and regulations that apply to mutual funds under such legislation.

SENIOR LOAN TRUST

The Senior Loan Trust is a newly created trust established under the laws of the Province of Ontario on May 16, 2005 pursuant to a declaration of trust by FT (NSI) Floating Rate Management Co., as trustee of the Senior Loan Trust. The Senior Loan Trust was established for the purpose of acquiring and holding the Senior Loan Portfolio.

On the Closing of the Offering, the Counterparty may choose to enter into transactions in order to hedge its exposure under the terms of the Forward Agreement to the economic performance of the Senior Loan Trust. The Counterparty or one of its affiliates may subscribe for units of the Senior Loan Trust with an aggregate net asset value equal to the value of the Common Share Portfolio of the Fund at the time the Fund enters into the Forward Agreement. The Senior Loan Trust will use any such subscription proceeds, together with the Leveraged Assets, to acquire the Senior Loan Portfolio. See "Investment Guidelines of the Fund – Forward Agreement".

Units of the Senior Loan Trust are redeemable at the demand of its unitholders. On redemption, a Senior Loan Trust unitholder will receive for each unit of the Senior Loan Trust redeemed an amount equal to the NAV per unit of the Senior Loan Trust. The NAV per unit of the Senior Loan Trust will be equal to the pro rata amount by which the total assets of the Senior Loan Trust exceed its total liabilities and, accordingly, will be based upon the value of the Senior Loan Portfolio. If the Counterparty or one of its affiliates subscribes for units of the Senior Loan

Trust, it will waive its right to enforce payment of redemption proceeds by the Senior Loan Trust. In addition, any eligible assignee of such units will be subject to the same waiver.

Where circumstances prevent an orderly sale of the Senior Loan Portfolio, the Manager, as trustee of the Senior Loan Trust, may suspend redemption or payments to be made to unitholders to allow for an orderly sale of all or part of the Senior Loan Portfolio.

The net income of the Senior Loan Trust will consist primarily of earnings on investments in Senior Loans and other investments in the Senior Loan Portfolio received by the Senior Loan Trust, less expenses of the Senior Loan Trust. The Senior Loan Trust will distribute all of its net income and net realized capital gains earned in each fiscal year to ensure that it is not liable for ordinary income tax under the Tax Act. To the extent that the Senior Loan Trust has not distributed in cash the full amount of its net income in any year, the difference between such amount and the amount actually distributed by the Senior Loan Trust will be paid through the issuance of additional units having a net asset value in the aggregate at the date of distribution equal to this difference. Immediately after any such distribution of units, the number of outstanding units of the Senior Loan Trust will be consolidated such that each unitholder of the Senior Loan Trust (including the Counterparty, if it is a unitholder) will hold after the consolidation the same number of units of the Senior Loan Trust as it held before the distribution of additional units.

The Senior Loan Trust does not have a fixed termination date but may be terminated with the prior approval of its unitholders by a resolution passed by holders of more than 66 2/3% of the units voting thereon. The unitholders of the Senior Loan Trust may remove the Manager, as trustee of the Senior Loan Trust, upon not less than 30 days' notice.

INVESTMENT GUIDELINES OF THE SENIOR LOAN TRUST

The sections "Investment Strategies", "Investment Portfolio", "Form of Investment in Senior Loans", "Borrowing and Use of Leverage", "Currency Hedging" and "Investment Restrictions" below are referred to collectively in this prospectus as the "Investment Guidelines".

Investment Strategies

The Senior Loan Trust will invest in a portfolio (the "Senior Loan Portfolio") consisting primarily of senior secured floating rate corporate loans ("Senior Loans") of debtors that are U.S issuers.

The Senior Loan Trust seeks to generate returns from (i) income earned on Senior Loans and other investments comprising the unleveraged portion of the Senior Loan Trust's assets, and (ii) the spread between the income earned, if any, on Senior Loans and other investments comprising the leveraged portion of the Senior Loan Trust's assets and the cost of borrowing used to finance such assets.

The following shows an example of the cash of the Fund available for distribution for various Offering sizes if the average yield on the Senior Loan Portfolio was 6.55% per annum, the average cost of leverage of the Senior Loan Trust was 3.54% per annum and the debt-to-equity ratio was 1:1.

Illustration of Investment Strategy of the Fund*

Gross Proceeds of Offering	\$50 million	\$75 million	\$100 million
A Yield on Unleveraged Portion of Senior Loan Portfolio ⁽¹⁾	6.13%	6.16%	6.18%
B Yield on Leveraged Portion of Senior Loan Portfolio ⁽²⁾	6.09%	6.14%	6.16%

C	Cost of leverage ⁽³⁾	3.29%	3.32%	3.33%
D	Net interest rate spread on leveraged portion of Senior Loan Portfolio (B minus C).....	2.80%	2.82%	2.83%
E	Aggregate return (A plus D).....	8.93%	8.98%	9.01%
F	Estimated annual operating expenses ⁽⁴⁾	3.23%	2.98%	2.85%
G	Cash available for distribution (E minus F)	5.70%	6.00%	6.15%

- (1) This is a variable rate which can move up and down based on market forces. This illustration was based on a Senior Loan Portfolio yield of 6.55%, determined as of May 11, 2005, less the organizational and offering expenses of the Fund and the Senior Loan Trust estimated at \$700,000 and one-time leverage implementation costs of \$300,000. The portfolio yield was determined using a sample portfolio of Senior Loans as of May 11, 2005 indicative of the initial Senior Loan Portfolio that the Senior Loan Trust intends to invest in with respect to industry and credit rating allocations. The portfolio yield of 6.55% represents an average estimated yield over the first 90 days of the Fund, calculated based on the average of 90 day LIBOR at March 23, 2005 and May 11, 2005 and assuming that the average spread over LIBOR remains constant during the period. The portfolio yield also assumes, for illustration purposes, that the portfolio was fully invested at the Fund's inception.
- (2) Based on net proceeds of the Offering size indicated and leverage of 1:1 plus Senior Loan Portfolio yield of 6.55% determined as of May 11, 2005.
- (3) Based on May 11, 2005 1-month LIBOR of 3.09% plus 0.45% and expressed as a percent of equity.
- (4) Includes management fees, cost of forward agreement, annual agency fees and annual operating expenses of the Fund and Senior Loan Trust estimated to be \$400,000 per year, in the aggregate.
- * The illustrative portfolio yields and leverage costs shown are based on yields and costs available as of May 11, 2005. Actual yields and leverage costs may differ materially. See "Fees and Expenses". The illustrative portfolio yields do not include any allowance for defaults or the realization of any gains on the portfolio.

A principal tenet of the Sub-Advisor's philosophy is that a disciplined approach to asset acquisition and disposition produces superior long-term results. The Sub-Advisor's goal is to achieve the highest total return, including both income and capital gains, with the lowest level of volatility over long periods of time.

Investment Portfolio

The Senior Loan Portfolio will consist primarily of an actively managed portfolio of Senior Loans, issued by debtors that are primarily U.S. issuers. See "Description of Senior Loans". The Senior Loan Trust may also invest, to a limited extent, in U.S. dollar denominated Senior Loans of non-U.S. issuers. In addition, the Senior Loan Trust may have a limited portion of its assets invested in Senior Loans of (i) firms that, at the time of acquisition, have defaulted on their debt obligations and/or filed for protection under Chapter 11 of the U.S. Bankruptcy Code, or have entered into a voluntary reorganization in conjunction with their creditors and stakeholders in order to avoid a bankruptcy filing, or (ii) firms, prior to an event of default, whose acute operating and/or financial problems have resulted in the markets valuing their respective securities and debt at discounted prices that may yield, should they not default, a premium over comparable duration U.S. Treasury bonds. Investing in the securities and debt of distressed issuers ("Special Situation Investments") involves a far greater level of risk than investing in issuers whose debt obligations are being met and whose debt trades at or close to its "par" value. Special Situation Investments may also include second lien loans, sub-performing real estate loans and mortgages, public and privately placed senior, mezzanine, subordinated and junior debt, convertible bonds and preferred and common stocks received in debt restructurings. Second lien loans have the same characteristics as Senior Loans

except that such loans are second in lien priority rather than first. Accordingly, the risks associated with second lien loans are higher than the risk of loans with first priority over the collateral. In the event of default on a second lien loan, the first priority lien holder has first claim to the underlying collateral of the loan. It is possible that no collateral value would remain for the second priority lien holder and therefore result in a loss of investment to the Senior Loan Trust to the extent it is invested in such loans. See “Risk Factors - Special Situation Investments”.

In keeping with its active management strategy, the composition of the Senior Loan Portfolio will vary over time depending on the Sub-Advisor’s assessment of market conditions and outlook and having regard to any legal or regulatory requirements of the Senior Loan Trust’s unitholders. The Sub-Advisor currently contemplates that the Senior Loan Portfolio once fully invested will initially be allocated among the types of securities in the target ranges shown below.

Investments	Expected Initial Asset Allocation	Permitted Range Weighting
Senior Loans		
<i>Senior Secured U.S. issuers</i>	84%	80-100%
<i>Non-U.S. issuers</i>	0%	0-10%
<i>Special Situation Investments</i>	16%	0-20%
Cash and Cash Equivalents	0%	0-20% ⁽¹⁾

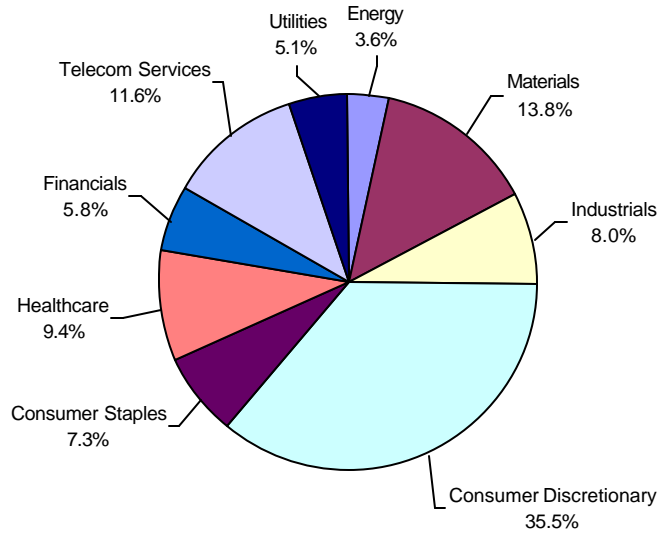
(1) For temporary defensive purposes, the Senior Loan Trust may depart from its principal investment strategies and invest part or all of its assets in Cash and Cash Equivalents. During such periods, the Fund may not be able to achieve its investment objectives.

Cash balances held temporarily pending investment will not result in a violation of the Investment Restrictions of the Senior Loan Trust. The Senior Loan Trust does not intend to voluntarily purchase equity securities but may receive such securities as a result of a restructuring of the debt or reorganization of an issuer. See “Risk Factors – Investments in Equity Securities Incidental to Investment in Senior Loans”.

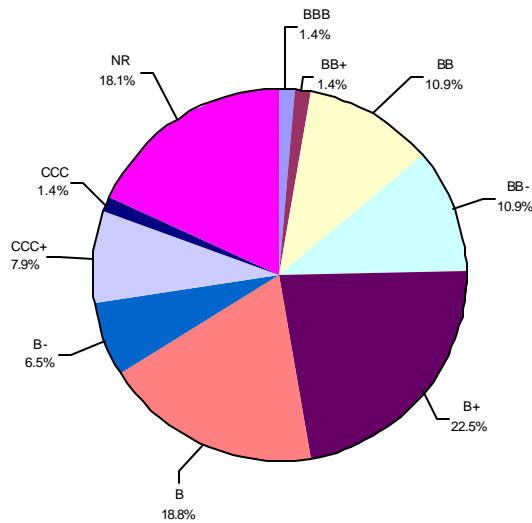
The Sub-Advisor intends to invest the assets of the Senior Loan Trust in a manner that limits both issuer and industry concentrations. See “Investment Guidelines of the Senior Loan Trust - Investment Restrictions”. Assets of the Senior Loan Trust will be selected based on their expected return relative to risk characteristics, taking into consideration factors such as credit quality. The initial Senior Loan Portfolio is expected to be diversified by issuer, industry and credit quality. In the event that less than the maximum Offering is completed, the Common Share Portfolio and the Senior Loan Portfolio may be less diversified by issuer, industry and credit quality than if the maximum Offering had been completed. A decrease in diversification will expose the Fund to greater issuer and industry concentrations.

Based on a sample portfolio of Senior Loans indicative of the initial Senior Loan Portfolio that the Senior Loan Trust intends to invest in, it is anticipated that the Senior Loan Portfolio will be allocated among the industry and credit quality allocations shown below.

Illustrative Initial Senior Loan Portfolio Allocation By Industry



Illustrative Initial Senior Loan Portfolio Allocation By Credit Rating⁽¹⁾



(1) Based on Standard & Poor's credit ratings.

The above charts are for informational purposes only. There is no assurance that the sector weighting of the securities in the initial Senior Loan Portfolio will be as set forth above. The sector weightings and the diversification of the portfolio (by issuer, industry and credit quality) will depend on various factors, including the Sub-Advisor's assessment of the market conditions at the time of investment and the size of the Offering.

Warehouse Program

In order to facilitate the Senior Loan Trust becoming fully invested as soon as possible after the Closing, the Senior Loan Trust, the Sub-Advisor and Scotiabank (Ireland) Limited, an affiliate of a Canadian chartered bank, (the “Participant”) intend to establish a warehousing program prior to the Closing. Pursuant to the terms of a master participation agreement between the Senior Loan Trust and the Participant (the “Master Participation Agreement”), the Senior Loan Trust will acquire a portfolio (the “Warehouse Portfolio”) comprised primarily of Senior Loans prior to the Closing and sell participations in each loan in the Warehouse Portfolio to the Participant. The Senior Loan Trust will repurchase the participations in the loans included in the Warehouse Portfolio from the Participant to the extent of the net proceeds of the Offering as soon as practicable after the Closing. If the participations are not repurchased within 90 days of the date of the Master Participation Agreement, the Warehouse Portfolio will be assigned to the Participant. Each purchase or sale of loans under the warehouse program will be at the fair market value of the loan at the time of purchase or sale. There can be no assurance that the Senior Loan Trust will be able to acquire any loans pursuant to the warehouse program or that the Senior Loan Trust will be fully invested as soon as possible after Closing. This could result in an adverse impact on the Fund’s performance and its ability to meet its distribution objectives.

Description of Senior Loans

Seniority in Capital Structure/Secured by Borrower’s Assets

Senior Loans generally hold the most senior position in the capital structure of a Borrower and are typically secured by liens on the assets of the Borrower, including, but not limited to, tangible assets such as cash, accounts receivable, inventory, real estate, property, plant and equipment, common and/or preferred stock of subsidiaries and other affiliated companies, and intangible assets including trademarks, copyrights, patent rights, and franchise value. The lender may also receive guarantees as a form of collateral.

By virtue of their senior position within a Borrower’s capital structure and their secured nature, Senior Loans typically provide lenders with the first right to cash flows or proceeds from the sale of a Borrower’s collateral if the Borrower becomes insolvent (subject to the limitations of bankruptcy law, which may provide higher priority to certain claims such as, for example, employee salaries, employee pensions, and taxes). These provisions generally result in Senior Loans being repaid before unsecured bank loans, unsecured corporate bonds, subordinated debt, trade creditors, and preferred or common shareholders.

Use of Proceeds of Senior Loans

The proceeds of Senior Loans are generally used by Borrowers for financing leveraged buy-outs, recapitalizations, mergers, acquisitions, stock repurchases and for other corporate purposes.

Interest Rate Paid by Borrowers and Reset Periods

Borrowers of Senior Loans typically pay interest quarterly at rates which typically equal a fixed percentage spread over a base rate such as LIBOR. For example, if LIBOR was 3.00% and the Borrower was paying a fixed spread of 3.43% over LIBOR, the total interest rate paid by the Borrower would be 6.43%. Base rates and, therefore, the total rates paid on Senior Loans float, i.e., they change as market rates of interest change. The fixed spread over the base rate on a Senior Loan typically does not change.

Although a base rate such as LIBOR can change every day, credit agreements for Senior Loans typically allow the Borrower to choose how frequently the base rate for the loan will reset. Such periods typically range from one day to six months, with most Borrowers choosing monthly or quarterly reset periods. During periods of rising interest rates, Borrowers generally choose longer reset periods, and during periods of declining interest rates, Borrowers generally choose shorter reset periods.

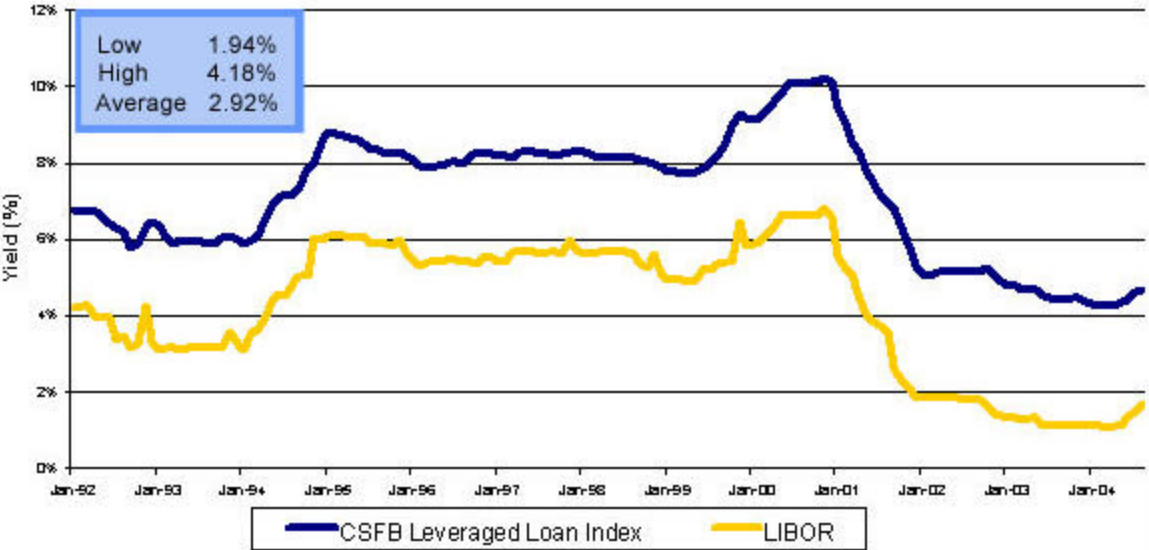
Yields

Investment in Senior Loans provides an opportunity for higher yield potential relative to other short-term investment vehicles such as Treasury Bills and other money market instruments. Yields on Senior Loans generally

move in the same direction as short-term interest rates which provides Unitholders with the opportunity for higher returns as short-term interest rates rise. Conversely, when short-term interest rates decline, Unitholders should expect the Senior Loan Portfolio’s yield to correspondingly decrease.

The following graph illustrates how the yields on Senior Loans generally move in the same direction as short-term interest rates. This characteristic enables a portfolio of Senior Loans to maintain a level of income with a fairly constant spread to its financing costs, which are often priced off LIBOR. The graph insert includes the low, high and average spread of the CSFB Leveraged Loan Index over LIBOR.

Historical Yield Spread



- (1) The CSFB Leveraged Loan Index is an index of Credit Suisse First Boston designed to mirror the investible universe of the U.S. dollar denominated Senior Loan market. Senior Loans in this index are typically rated BB+ or lower by Standard & Poor’s and/or BB (high) or lower by DBRS.
- (2) Month-end, one-month LIBOR sourced by British Bankers’ Association.

Fees

In addition, in the process of buying, selling and holding Senior Loans, the Senior Loan Trust may receive and/or pay certain fees. Any fees received are in addition to interest payments received and may include commissions, amendment and waiver fees and prepayment penalty fees. In certain circumstances, the Senior Loan Trust may receive a prepayment penalty fee upon the prepayment of a Senior Loan by a Borrower.

Below Investment Grade

There is no minimum rating or other independent evaluation of a Borrower limiting the investments of the Senior Loan Trust and most Senior Loans that the Senior Loan Trust may acquire, if rated, will be rated below Investment Grade. Below Investment Grade Senior Loans are rated BB (high) or lower by DBRS, BB+ or lower by Standard & Poor’s or comparably rated by another NRSRO or, if unrated, are of comparable credit quality. Below Investment Grade Senior Loans are considered more speculative with respect to the issuer’s capacity to pay interest and repay principal than Investment Grade debt obligations/investments. See “Risk Factors – Below Investment Grade Debt Instruments”.

Companies rated below Investment Grade that seek capital through debt turn to the Senior Loan market because it is less expensive and more efficient to administer than credit lines. Additionally, Senior Loans may be preferable to high yield bond or equity offerings. The following table shows the ratings for Investment Grade and below Investment Grade companies.

	Investment Grade				Below Investment Grade				
	High Grade Bonds Commercial Paper				High Yield Bonds Senior Loans				
Standard & Poor's	AAA	AA	A	BBB	BB	B	CCC	CC	C
Moody's	Aaa	Aa	A	Baa	Ba	B	Caa	Ca	C

Source: As rated by Standard & Poor's and Moody's.

Default Rates

In most cases, Senior Loans are rated below Investment Grade but remain less volatile due to their senior status in the Borrower's capital structure, their secured nature and their floating rate of return. Since 1970, increases in default rates on below Investment Grade debt has typically been followed by prolonged periods of below-average defaults primarily as a result of the more rigorous credit underwriting standards that are typically imposed by lenders following such periods. The market experienced an increase in default rates in 2001 to 7.61% and in 2002 to 7.47% compared with 3.89% in 2000. Default rates decreased substantially in 2003 to 3.54%. This trend has continued throughout 2004. If however, any Borrower should fall into default of its Senior Loan obligations the covenants on such loans would generally provide that lenders would hold a priority position claim on all assets pledged as collateral to recover their invested capital prior to any claim on assets of other subordinate corporate debt obligations. For the small percentage of Senior Loans that do default, lenders have experienced high ultimate recovery rates as indicated in the table below. Moreover, the ultimate recovery rate of Senior Loans that have defaulted has been much higher than the recovery rate for other types of corporate debt obligations as indicated in the table below.

1998-2004 Ultimate Recovery Rate Averages⁽¹⁾

Instrument Type	Discounted ultimate recovery ⁽²⁾ (%)
Senior Loans	77.1
Senior secured bonds	63.3
Senior unsecured bonds	42.7
Senior subordinated bonds	31.2
Subordinated bonds	30.1

(1) Source Standard & Poor's LossStats™ Database for the period to June 30, 2004.

(2) Discounted ultimate recovery rates are derived from nominal recovery rates after discounting by the interest rate existing just prior to bankruptcy.

U.S. Senior Loan Market

Senior Loans vs. High Yield Bonds

The following table compares key features of both Senior Loans and high yield bonds.

	Senior Loans	High Yield Bonds
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Security	Yes-1 st ranking	Some
Ranking	Senior	Structurally subordinated
Term	5-9 years	7-10 years
Income	Floating	Fixed
Spread over Underlying Benchmark	200-400 bps	350-650 bps

Source: Credit Suisse First Boston

Growing Market

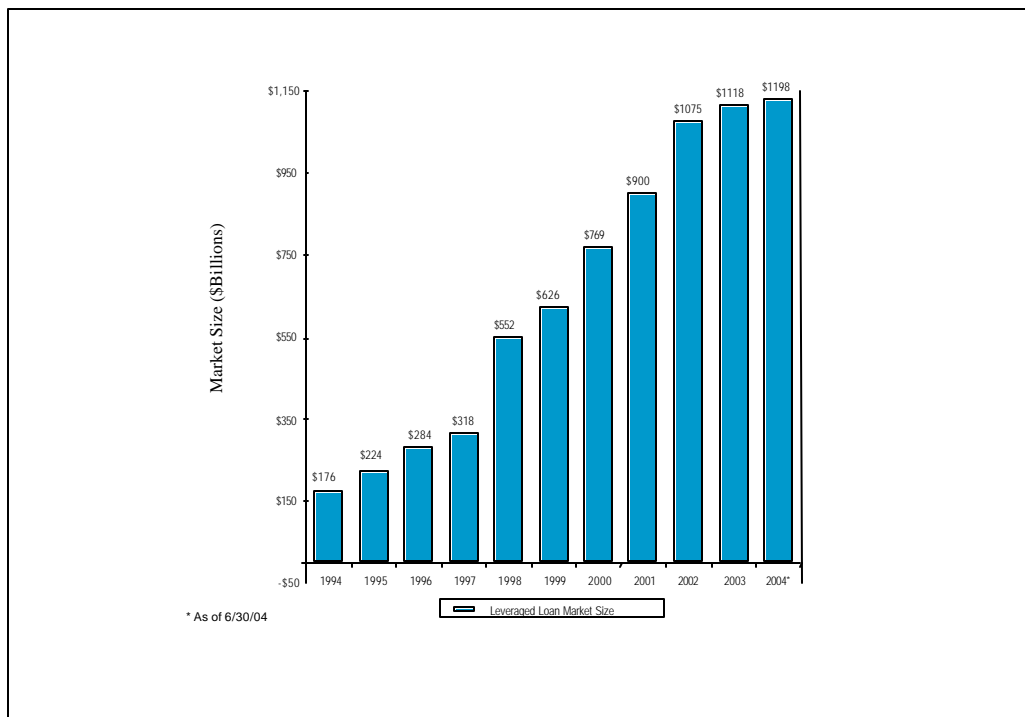
The Senior Loan market is an institutional marketplace. Many Senior Loan transactions are completed on an exempt basis without any public distribution or listing of the offered securities. It is difficult, if not impossible, for individual investors to participate directly in the Senior Loan market.

According to Standard & Poor's Leveraged Commentary and Data, over the last nine years, the investor base in Senior Loans has changed dramatically, with foreign and domestic banks moving from an approximate combined 75% market share in 1994 to an approximate combined 25% market share at year end 2003, while institutional investors, including mutual funds, hedge funds, collateralized debt obligations, insurance companies, and pension, endowment, and foundation investors collectively moved from an approximate 25% market share to an approximate 75% market share over the same period. According to Loan Pricing Corporation and Securities Data Corp., the entrance of new investors has helped increase the amount of secondary market trading in Senior Loans. Approximately U.S.\$145 billion in Senior Loan trades were executed in 2003. Continued growth in secondary market trading could result in improved liquidity for Senior Loans over time.

The U.S market for Senior Loans in which the Senior Loan Trust will invest surpassed U.S.\$1.2 trillion in 2004. Leveraged loans are the largest source of high yield paper with new-issue volume of U.S.\$340 billion in 2004. Trading of Senior Loans in the secondary market was U.S.\$82 billion in the first quarter of 2004, on pace to match 2003's trading volume of U.S.\$145 billion.

The graph below shows the growth of the Senior Loan market over the last 15 years.

Size of Senior Loan Market



Source: Credit Suisse First Boston.

Market Prices

The prices at which Senior Loans trade vary over time based on such factors as underlying changes in the risks associated with the issuer of the securities (such as business changes affecting a corporate issuer), the liquidity of the security, investor demand, term to maturity and general economic trends.

Form of Investment in Senior Loans

Use of Agents

Senior Loans generally are arranged through private negotiations between a Borrower and a group of financial institutions initially represented by an agent who is usually one of the originating lenders. In larger transactions, it is common to have several agents. Generally, however, only one such agent has primary responsibility for on-going administration of a Senior Loan. Agents are typically paid fees by the Borrower for their services. The agent is primarily responsible for negotiating the credit agreement which establishes the terms and conditions of the Senior Loan and the rights of the Borrower and the lenders. The agent is also responsible for monitoring collateral and for exercising remedies available to the lenders such as foreclosure upon collateral.

Credit agreements may provide for the termination of the agent's status in the event that it fails to act as required under the relevant credit agreement, becomes insolvent, enters FDIC receivership, or if not FDIC insured, enters into bankruptcy. Should such an agent, lender or assignor with respect to an assignment inter-positioned between the Senior Loan Trust and the Borrower become insolvent or enter FDIC receivership or bankruptcy, any interest in the Senior Loan of such person and any loan payment held by such person for the benefit of the Senior Loan Trust should not be included in such person's or entity's bankruptcy estate. If, however, any such amount were included in such person's or entity's bankruptcy estate, the Senior Loan Trust would incur certain costs and delays in realizing payment or could suffer a loss of principal or interest. In this event, the Fund could experience a decrease in NAV.

Form of Investment

The Senior Loan Trust's investments in Senior Loans may take different forms including the purchase of an assignment of a portion of a Senior Loan from a third party or the acquisition of a participation in a Senior Loan. Such purchases of interests in Senior Loans will be made at the fair market value of the Senior Loan at the time of purchase.

As more fully set out in the declaration of trust of the Senior Loan Trust, the Senior Loan Trust (either directly or through its agents) will not originate any loans or negotiate or determine the terms of any credit or other agreements in respect of a loan and will not acquire loans in respect of which the Counterparty, the Advisor or the Sub-Advisor (or any person related to any of them) negotiated the terms of the loan. Notwithstanding the foregoing, the Senior Loan Trust, may, however, exercise all rights afforded it under assignments including, but not limited to, voting on changes to terms of loans that result from covenant violations. In addition, the Senior Loan Trust may have standard terms by which it evaluates loans. The Senior Loan Trust will not acquire any assignment or participation in a loan of a Borrower originated or guaranteed by the Counterparty, the Advisor or the Sub-Advisor, or any person related to any of them.

When the Senior Loan Trust acquires a participation in, or an assignment of, a Senior Loan, it may pay a fee to, or forego a portion of interest payments from, the lender selling the participation or assignment. The Senior Loan Trust will purchase an assignment or participation with respect to a Senior Loan only if the agent is determined by the Sub-Advisor to be creditworthy.

As more fully set out in the declaration of trust of the Senior Loan Trust, the Senior Loan Trust will not acquire loans for the purpose of selling them to purchasers in the market and will not hold loans other than for investment or speculation for its own account; provided that the Senior Loan Trust may sell loans to qualified or approved purchasers, sellers and brokers of such investments to take advantage of, or adjust for, market swings, credit changes or overall portfolio risk building.

Assignments

When the Senior Loan Trust is a purchaser of an assignment, it typically succeeds to all the rights and obligations under the credit agreement of the assigning lender and becomes a lender under the credit agreement with the same rights and obligations as the assigning lender. Assignments are, however, arranged through private negotiations between potential assignees and potential assignors, and the rights and obligations acquired by the purchaser of an assignment may be more limited than those held by the assigning lender.

Participations

The Senior Loan Trust may also invest in participations in Senior Loans. The rights of the Senior Loan Trust when it acquires a participation are likely to be more limited than the rights of an original lender or an investor who acquired an assignment. Participation by the Senior Loan Trust in a lender's portion of a Senior Loan typically means that the Senior Loan Trust has only a contractual relationship with the lender, not with the Borrower. This means that the Senior Loan Trust has the right to receive payments of principal, interest and any fees to which it is entitled only from the lender selling the participation and only upon receipt by the lender of payments from the Borrower.

With a participation, the Senior Loan Trust will have no rights to enforce compliance by the Borrower with the terms of the credit agreement or any rights with respect to any funds acquired by other lenders through set-off against the Borrower. In addition, the Senior Loan Trust may not directly benefit from the collateral supporting the Senior Loan because it may be treated as a general creditor of the lender instead of a senior secured creditor of the Borrower. As a result, the Senior Loan Trust may be subject to delays, expenses and risks that are greater than those that exist when the Senior Loan Trust holds an assignment. This means the Senior Loan Trust must assume the credit risk of both the Borrower and the lender selling the participation. The Senior Loan Trust will consider a purchase of participations only in those situations where the Senior Loan Trust considers the participating lender to be creditworthy.

Senior Loans that the Senior Loan Trust may acquire include participation interests in loans secured by high credit tenant leases (“Lease Participations”) where the collateral and credit quality of the Borrower and the likelihood of payback are believed by the Sub-Advisor to be the same as those applied to Senior Loans. A Lease Participation is also required to have a floating interest rate that is indexed to a benchmark indicator of prevailing interest rates, such as LIBOR or the Prime Rate.

In the event of a bankruptcy or insolvency of a Borrower, the obligation of the Borrower to repay the Senior Loan may be subject to certain defenses that can be asserted by such Borrower against the Senior Loan Trust as a result of improper conduct of the lender selling the participation. A participation in a Senior Loan will be deemed to be a Senior Loan for the purposes of the Investment Guidelines of the Senior Loan Trust.

Borrowing and Use of Leverage

The Senior Loan Trust intends to borrow an amount representing not more than 100% of the value of its pre-leverage net assets (being an asset-to-equity ratio of 2:1) under a senior secured credit facility provided by an initial conduit lender, with liquidity support being provided to the conduit lender through a 364-day committed liquidity facility established by The Bank of Nova Scotia. The terms and conditions of the senior secured credit facility will be set out in a credit facility agreement and any related security agreement (collectively, the “Credit Agreement”).

So long as the Senior Loan Trust invests in securities that provide a higher rate of return than the all-in cost of the borrowings, the use of leverage under normal circumstances will typically increase the yield of the Senior Loan Trust, and accordingly that received by Unitholders, than if the Senior Loan Trust were not leveraged.

Assuming that the Leveraged Assets will represent approximately 50% of the Senior Loan Trust’s capital, the table below is furnished to illustrate the effect of leverage on the total return of the Fund. Unit total return is comprised of the distributions paid by the Fund to the holders of Units (the amount of which is largely determined by the net investment income of the Senior Loan Trust after paying interest on its Leveraged Assets and gains or losses on the value of the securities the Senior Loan Trust owns).

The table assumes investment portfolio total returns (comprised of income and changes in the value of securities held in the Senior Loan Portfolio) of (10%), (5%), 0%, 5% and 10%. These assumed investment portfolio returns are hypothetical figures and are not necessarily indicative of the investment portfolio returns experienced or to be experienced by the Senior Loan Trust. See “Risk Factors”.

The table reflects Leveraged Assets representing 50% of the capital of the Senior Loan Trust, net of expenses and the currently projected interest expense of the Senior Loan Trust of 3.08%. Actual interest rates on the Leveraged Assets will vary frequently and may be significantly higher or lower than the rate estimated above.

Illustration of Effects of Leverage

Assumed Senior Loan Portfolio Total Return (Net of Expenses)	(10%)	(5%)	0	5%	10%
Total Return of the Fund	(22.84%)	(15.38%)	(5.96%)	3.46%	12.88%

The Credit Agreement will terminate on the earliest of (i) the termination or expiry of the liquidity facility, (ii) the date the Senior Loan Trust reduces the total commitment to zero and (iii) the occurrence and continuance of an event of default. Although the timing and other terms of the borrowing will be determined by the Sub-Advisor (subject to monitoring by the Advisor), the Senior Loan Trust expects to invest the proceeds derived from any borrowings under the Credit Agreement in accordance with the Senior Loan Trust’s Investment Guidelines.

Indebtedness of the Senior Loan Trust to the conduit lender under the senior secured credit facility (whether on account of principal, interest, fees or indemnity) will be secured by a security interest in all of the assets of the Senior Loan Trust and, accordingly, the conduit lender’s claim on the Senior Loan Trust’s assets is senior to the claim of the unitholders of the Senior Loan Trust on such assets.

The terms of the Credit Agreement will require the Senior Loan Trust to maintain minimum average balances with the lender, to pay a commitment and other upfront and annual fees to maintain leverage borrowing capacity. Such requirements will increase the cost of borrowing over the stated interest rate. The terms of such borrowings also contain provisions which limit certain activities of the Senior Loan Trust, including the payment of distributions to its unitholders in certain circumstances. Pursuant to the terms of the Credit Agreement, the Senior Loan Trust will be subject to covenants relating to asset coverage and Senior Loan Portfolio composition requirements.

The Senior Loan Trust may also borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of distributions, funding redemptions and the settlement of securities transactions which otherwise might require untimely dispositions of assets.

See “Risk Factors – Leverage Risk.”

Currency Hedging

The Advisor will be responsible for implementing the currency hedging strategy of the Senior Loan Trust. The Senior Loan Trust may invest in or use derivative instruments for hedging, investment or leverage purposes consistent with the Investment Guidelines. A derivative is an instrument, agreement or security, the market price, value or payment obligations of which is derived from, referenced to or based on an underlying security, interest, benchmark or formula.

The Fund’s NAV is measured in Canadian dollars and payments to Unitholders will be made in Canadian dollars but most of the investments in the Senior Loan Trust, at any time, will consist primarily of securities denominated in currencies other than the Canadian dollar. The Sub-Advisor will manage the Senior Loan Trust primarily in United States dollars. It is expected that at least 90% of its U.S. currency risk will be hedged back to the Canadian dollar. See “Risk Factors – Foreign Currency Exposure”.

While the Senior Loan Trust intends to purchase forward contracts or utilize cross-currency swaps for currency hedging, it may also use other derivatives, such as over-the-counter put and call options on foreign currencies. A forward contract is a cash market transaction in which a seller agrees to deliver a specific cash commodity to a buyer at some point in the future. A cross-currency swap is a contract to exchange two currencies at one time, in order to exchange back to each investor’s original position at some future date, for a predetermined price. A put option is an option that gives the purchaser of the option the right to sell, and obligates the writer of the option to purchase, the currency of the underlying option at a stated exercise price at any time prior to or at the expiration of the option. A call option gives the purchaser of the option the right to buy, and obligates the writer to sell, the underlying currency at a stated exercise price at any time prior to or at the expiration of the option. See “Risk Factors – Strategic Transactions”.

Investment Restrictions

The assets of the Senior Loan Trust will be managed subject to the following investment restrictions as they are more fully set out in the declaration of trust of the Senior Loan Trust (the “Investment Restrictions”) and having regard to any legal or regulatory requirements of the Senior Loan Trust’s unitholders:

- (i) The Senior Loan Trust will not invest in securities other than in accordance with the Senior Loan Trust’s Investment Guidelines.
- (ii) The Senior Loan Trust will not make any investment that could require the Senior Loan Trust to include an amount in its income pursuant to subsection 94.1(4), 94.2(4) or 94.3(4) of the Tax Act as proposed in draft legislation issued by the Department of Finance on October 30, 2003 (or pursuant to any amendments to such proposals, subsequent provisions as enacted into law, or successor provisions thereto).
- (iii) The Senior Loan Trust will not make or hold any investments in entities that would be “foreign affiliates” of the Senior Loan Trust for purposes of the Tax Act.

- (iv) The Senior Loan Trust will not invest more than 5% of its assets (determined at the time of purchase) in the securities of any one of the top five issuers (other than Cash and Cash Equivalents) so that concentration of the top five issuers represents no more than 25% of the Fund's assets (determined at the time of purchase).
- (v) The Senior Loan Trust will not invest more than 10% of its assets (determined at the time of purchase) in participations in Senior Loans.
- (vi) The Senior Loan Trust will not purchase any security other than Cash and Cash Equivalents if, as a result, at the time of the purchase, 15% or more of the Senior Loan Trust's assets (taken at current value) would be invested in the securities of Borrowers and other issuers having their principal business activities in the same industry. Also, no more than 40% of the Senior Loan Trust's assets can be concentrated in the top three industry groups in the Senior Loan Portfolio. Other than the foregoing, the maximum concentration in an industry is 8% of the Senior Loan Trust's assets (determined at the time of purchase).
- (vii) The Senior Loan Trust will not acquire more than 40% of any one Senior Loan or series of Senior Loans of the same Borrower that have substantially similar terms.
- (viii) The Senior Loan Trust will not purchase or sell commodities or commodity contracts.
- (ix) The Senior Loan Trust will not participate in oil and gas or similar ventures.
- (x) The Senior Loan Trust will not purchase real estate.
- (xi) The Senior Loan Trust will not invest for the purpose of exercising control over management of any issuer.
- (xii) The Senior Loan Trust will not make any investments in loans of U.S. issuers the income from which will not qualify as "portfolio interest" under section 881(c) of the U.S. Internal Revenue Code of 1986, as amended.
- (xiii) The Senior Loan Trust will not originate any loans.
- (xiv) The Senior Loan Trust will not acquire any interest in a loan originated by or guaranteed by the Counterparty, the Advisor or the Sub-Advisor or any person related to any of them.
- (xv) The Senior Loan Trust will not acquire loans in respect of which the Counterparty, the Advisor or the Sub-Advisor (or any person related to any of them) negotiated the terms of the loans; provided, however, that the Senior Loan Trust may exercise all rights afforded to it under assignment agreements, credit agreements and the U.S. Bankruptcy Code or similar code, including, but not limited to, the right to vote on changes to terms of a loan that result from covenant violations.
- (xvi) The Senior Loan Trust will not voluntarily acquire any equity interest in an issuer if the Senior Loan Trust holds an interest in such issuer's loan or a participation in such issuer's loan except as may be acquired through conversion of the loan investment through an in-court or out-of-court restructuring or reorganization or a pre-packaged bankruptcy or bankruptcy under Chapter 11 or Chapter 13 of the U.S. Bankruptcy Code or similar code applicable for the jurisdiction of the proceeding.

INVESTMENT GUIDELINES OF THE FUND

Investment Strategy

The net proceeds from the Offering and the exercise of the Over-Allotment Option, if applicable, will be used by the Fund to invest in the Common Share Portfolio which will be subject to the Forward Agreement.

Forward Agreement

Upon or within 30 days of the closing of the Offering, the Fund will enter into the Forward Agreement, which is intended to provide the Fund with a payment on or about the Termination Date of an amount equal to the redemption proceeds of a Notional Investment in units of the Senior Loan Trust in exchange for the Common Share Portfolio. Amounts paid by the Senior Loan Trust to its unitholders will be funded on such date by the net realized proceeds of disposition of the Senior Loan Portfolio (after satisfying liabilities of the Senior Loan Trust, if any). The expenses of the Senior Loan Trust include the annual management fee payable to the Manager and debt servicing costs.

Under the terms of the Forward Agreement, the Fund and the Counterparty have agreed that upon the occurrence of the Termination Date or in the context of any partial settlement of the Forward Agreement effected by the Fund occurring prior to the Termination Date, their settlement obligations under the Forward Agreement with respect to the Common Share Portfolio securities will be discharged, at the election of the Fund, either by physical delivery of the Common Share Portfolio securities by the Fund to the Counterparty against cash payment or by the making of a net cash payment to the appropriate party. The amount payable by the Counterparty for physical delivery of the Common Share Portfolio (or the relevant portion thereof in the context of a partial settlement) may be more or less than the original subscription price of the Units. If the Fund elects for physical delivery of the Common Share Portfolio under the Forward Agreement (or the relevant portion thereof in the context of a partial settlement), the Counterparty will pay to the Fund on or about the Termination Date (or earlier in whole or in part at the request of the Fund) as the purchase price for the Common Share Portfolio (or the relevant portion thereof in the context of a partial settlement) an amount equal to the redemption proceeds of the Notional Investment (or portion thereof) in units of the Senior Loan Trust. The Notional Investment will be reduced proportionately to reflect the redemption and repurchase of Units over time. Prior to the Termination Date, Common Share Portfolio securities or other acceptable securities will be pledged to and may be held by the Counterparty as security for the obligations of the Fund under the Forward Agreement.

In order to permit the Fund to fund distributions as well as redemptions of Units by Unitholders from time to time, payment for purchases of Units in the market and expenses and other liabilities of the Fund as well as general liquidity requirements, the terms of the Forward Agreement will provide that the Forward Agreement may be partially settled prior to the Termination Date by the Fund tendering to the Counterparty securities of the Common Share Portfolio.

Under the Forward Agreement, the forward purchase price may be reduced for all dividends and distributions, including extraordinary distributions, declared and paid on the Common Share Portfolio securities effective the date such securities begin to trade on an ex-dividend basis. If any dividends or distributions are to be received by the Fund, the Forward Agreement will provide that replacement securities acceptable to the Counterparty may, at the Fund's option, be substituted for shares in respect of which the dividend or distribution has been declared prior to the record date for such dividend or distribution to preserve the value of the forward transaction. In the event that such replacement securities are not available, the Fund may consider contributing additional securities to the Common Share Portfolio or entering into additional forward, derivative or other transactions. The Forward Agreement will have similar provisions designed to avoid adjustments of the amount to be paid on or about the Termination Date which might otherwise be required if the Fund receives consideration as a consequence of a merger transaction involving any of the securities in the Common Share Portfolio.

The Fund may enter into a replacement Forward Agreement or other forward or derivative transactions with the Counterparty, or one or more other counterparties if the Forward Agreement is terminated prior to the Termination Date, in order to preserve the original objectives of the Forward Agreement or in the event that the term of the Fund has been extended in accordance with the terms of the Declaration of Trust.

The payment obligations of the Counterparty to the Fund under the Forward Agreement will be determined by reference to the Notional Investment. Under the Forward Agreement, if the Senior Loan Trust suspends redemptions or fails to pay distributions on its units corresponding to the targeted distributions on the Fund's Units, the Counterparty will suspend payment in respect of the Forward Agreement until such time as the redemptions and/or distributions are reinstated by the Senior Loan Trust.

The Counterparty may choose to enter into transactions in order to hedge its exposure under the terms of the Forward Agreement to the economic performance of the Senior Loan Trust. There is no assurance that the Counterparty or its affiliates will maintain a hedge or will do so with respect to the full amount or term of the Forward Agreement. The Fund is exposed to the credit risk associated with the Counterparty in respect of the Forward Agreement.

The Forward Agreement may be terminated prior to the Termination Date in certain circumstances including: (i) at the option of the Fund in its sole discretion but subject to the approval by the Unitholders in certain circumstances; (ii) by the Counterparty if the Counterparty determines in its sole discretion that it is unable to hedge its position under the Forward Agreement; (iii) by the Counterparty if the Fund fails to pay the monthly fee under the Forward Agreement or if the Fund is unwilling to compensate the Counterparty for an increase in the costs of hedging its position under the Forward Agreement; (iv) if the Sub-Advisor ceases to be the portfolio manager of the Senior Loan Portfolio unless a successor sub-advisor acceptable to the Counterparty is approved; (v) if the Manager ceases to be the trustee of the Fund unless a successor trustee acceptable to the Counterparty is approved; and (vi) if certain regulatory events or changes in law occur that affect the Fund, the Manager, the Counterparty or the Forward Agreement.

Upon the occurrence of certain termination events or certain events of default, the Counterparty may elect to terminate the Forward Agreement and determine the current mark-to-market value to it of the Forward Agreement. If the determination of such mark-to-market value discloses that the Counterparty will, relative to then prevailing market conditions, suffer a loss upon the early termination of the Forward Agreement, the Fund must pay an amount equal to such mark-to-market value to the Counterparty. If such determination discloses that the Counterparty will incur a gain upon the early termination of the Forward Agreement, the Counterparty must pay an amount equal to such mark-to-market value to the Fund. In the event a payment is required from the Fund, the Counterparty may satisfy such amount owing to it by selling the Common Share Portfolio and applying the proceeds thereof against the Fund's payment obligation. Payments made to or by the Fund in this eventuality may be treated as ordinary income and not on account of capital for the purposes of the Tax Act and taxed accordingly.

See "Risk Factors – No Assurance of Monthly Distributions or Payment of Redemption Proceeds" and "Risk Factors – Counterparty Risk".

Securities Lending

In order to generate additional returns, the Fund may initiate a securities lending program, with the Counterparty's consent, under which it will lend securities in the Common Share Portfolio to brokers, dealers, and other financial institutions provided that: (i) the borrower will pay to the Fund a negotiated securities lending fee and will make compensation payments to the Fund equal to any distributions received by the borrower on the securities borrowed; (ii) the securities loans must qualify as "securities lending arrangements" for the purposes of the Tax Act; and (iii) the Fund will receive prescribed collateral security which it may pledge as security under the Forward Agreement. The minimum level of collateralization in respect of a loan of the Common Share Portfolio securities will be 102%. The Fund will not lend securities to the Counterparty. The Fund may also receive a fee or interest on the collateral, and may pay lending fees to a party arranging the loan. For greater certainty, any securities lending by the Fund will not be subject to the restrictions in NI 81-102.

Investment Restrictions

The investment activities of the Fund are to be conducted in accordance with, among other things, the following investment restrictions:

- (i) **Investment in Canadian Equities.** The Fund will restrict its investments to common shares of Canadian public companies that are each a "Canadian security" for the purposes of section 39(6) of the Tax Act. Until the "foreign property" rules in the Tax Act are repealed, the Fund will not make or retain investments that would render the Units "foreign property" for purposes of Part XI of the Tax Act.

- (ii) **Purchasing Securities.** The Fund will not purchase securities other than through normal market facilities unless the purchase price therefor approximates the prevailing market price or is negotiated or established on an arm's length basis.
- (iii) **Mutual Fund Trust.** The Fund will manage its investments and affairs to ensure that it will at all times be a "mutual fund trust" for purposes of the Tax Act.

The Fund also may invest excess cash in (i) any Canadian or U.S. dollar denominated debt security considered Investment Grade, at the time of investment, by Standard & Poor's or another equivalent credit rating agency, and (ii) Cash and Cash Equivalents. The Fund will enter into the Forward Agreement as described under "Investment Guidelines of the Fund – Forward Agreement".

The Fund may also borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of distributions, funding redemptions and expenses and the settlement of securities transactions which otherwise might require untimely dispositions of assets.

MANAGER

The Manager of the Fund and the Senior Loan Trust

FT (NSI) Floating Rate Management Co. (the "Manager"), an unlimited liability company incorporated under the laws of the Province of Nova Scotia on March 21, 2005, is the trustee of the Fund and the Senior Loan Trust and will perform the management functions for the Fund and the Senior Loan Trust. Its head office is at 330 Bay Street, Suite 1300, Toronto, Ontario, M5H 2S8. The Manager is a wholly-owned subsidiary of First Defined Portfolio Management Co. and is a Canadian affiliate of the Advisor, First Trust Advisors L.P. First Defined Portfolio Management Co. is a provider of specialized financial products and services to institutional and individual clients and as of April 30, 2005 managed an aggregate of approximately U.S.\$600 million in public investment funds and private capital. See the corporate structure chart under "Advisor – Ownership of Advisor".

The Manager has retained the Advisor to provide certain advisory services to the Fund and the Senior Loan Trust pursuant to the Investment Advisory Agreements. The Advisor in turn has retained the Sub-Advisor in respect of the Senior Loan Trust pursuant to the Investment Sub-Advisory Agreement.

An affiliate of the Manager is the manager of First Trust/Highland Capital Floating Rate Income Fund (TSX: FHT.UN), a closed-end investment fund launched in February 2005 which raised Cdn\$195,700,000 in its initial public offering. The investment strategies of the Senior Loan Trust are substantially the same as the investment strategies of First Trust/Highland Capital Floating Rate Income Fund.

Directors and Officers of the Manager

The name, municipality of residence and position with the Manager and principal occupation of each of the directors and officers of the Manager are as follows:

<u>Name and Municipality</u>	<u>Position with the Manager</u>	<u>Principal Occupation</u>
Mark Bradley..... Wheaton, Illinois	Director and Chief Financial Officer	Chief Financial Officer of First Trust Portfolios L.P.
Robert Bredemeier..... Wheaton, Illinois	Director	Managing Director of First Trust Portfolios L.P.
Fraser Howell..... Toronto, Ontario	Director	Director of Finance at Grant Forest Products Inc.
Ronald McAlister..... Wayne, Illinois	Chairman of the Board, Director and Chief Executive Officer	Managing Director of First Trust Portfolios L.P. and President of First Trust Global Enterprises, L.P.

John Szucs..... Toronto, Ontario	Director	Portfolio Manager with Blumont Capital Corporation
Robert Turner..... Toronto, Ontario	Director	Senior Director of Shared Services for Bell Canada Inc.
Scott Blair..... Toronto, Ontario	Senior Vice President	Senior Vice President of First Defined Portfolio Management Co.
M. Craig Brown..... Toronto, Ontario	Secretary	Partner, Fasken Martineau DuMoulin LLP
Lawrence Guy..... Toronto, Ontario	Vice President	Vice President of First Defined Portfolio Management Co.
Liberty Rivera..... Toronto, Ontario	Vice President	Vice President of First Defined Portfolio Management Co.

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

Mark Bradley - Mr. Bradley’s principal occupation is Chief Financial Officer of First Trust Portfolios L.P., an organization he joined in 1991. He is also Chief Financial Officer of First Defined Portfolio Management Co., the Advisor and FT Floating Rate Management Inc. His responsibilities at First Defined Portfolio Management Co. include overseeing the Financial, Accounting, and Clearing operations, as well as the Human Resources and Information Services departments of the firm. Mr. Bradley has 21 years of experience in the financial services industry. He graduated from Wheaton College with a B.A. in Economics and completed his Masters of Management from Northwestern University.

Robert Bredemeier - Mr. Bredemeier’s principal occupation is Managing Director at First Trust Portfolios L.P. and his responsibilities include overseeing research, product development, and the introduction of products both domestically and internationally. He is a director of the Manager, FT Floating Rate Management Inc. and First Defined Portfolio Management Co. Mr. Bredemeier has been in the securities industry for 20 years and has a thorough understanding of the packaged product business. Prior to joining First Trust Portfolios L.P. in 1991, he worked with Clayton Brown, as Vice President, New Products from 1988 to 1991. Mr. Bredemeier graduated from Judson College in Elgin, Illinois with a degree in Economics.

Fraser Howell - Mr Howell is a Chartered Accountant with more than 13 years of financial experience. He is the Director of Finance at Grant Forest Products Inc. (“GFPI”). In this role, Mr. Howell has overall responsibility for GFPI’s planning, reporting, financing, and growth activities. Before joining GFPI in 1998, Mr. Howell was active in corporate banking with a Canadian financial institution and prior to this he provided financial advisory services with a major accounting firm from 1995 to 1997. In addition to being a Chartered Accountant, Mr. Howell also holds the Chartered Business Valuator designation and graduated from the University of Western Ontario with a B.Sc. (Honours).

Ronald McAlister - Mr. McAlister’s principal occupation is a Managing Director of First Trust Portfolios L.P., an organization he joined in 1991. He is the Chairman, Chief Executive Officer and a director of FT Floating Rate Management Inc. and First Defined Portfolio Management Co. He also is the President of both First Trust Global Enterprises, L.P. and the Advisor, and has been in the financial services industry for 21 years. His career has been in sales on the institutional side and now includes the development of international business. Mr. McAlister graduated from Illinois State University with a B.S. and MBA.

John Szucs - Mr. Szucs’ principal occupation is Portfolio Manager with Blumont Capital Corporation, an organization he has been with since July 2004. He previously was Senior Analyst/Trader with Triax Investment

Management from 2001 to 2004. Prior to this he worked in Equity Derivative Sales and Trading with Fimat Canada from 2000 to 2001. Mr. Szucs holds a B.A. degree from The University of Western Ontario.

Robert Turner - Mr. Turner is Senior Director of Shared Services for Bell Canada Inc. Prior to joining Bell Canada Inc. in May 2000, Mr. Turner spent two years in the United Kingdom working as a project manager for MCI Worldcom Limited. From July 1996 to October 1998, Mr. Turner was Associate Director of Finance and Management Reporting for Bell Canada Inc. Mr. Turner received a BA degree from The University of Western Ontario and an MBA from The University of Windsor.

Scott Blair - Mr. Blair has been in the Canadian financial services industry for nearly 20 years. He currently serves as Senior Vice President of First Defined Portfolio Management Co. with overall corporate responsibility and is Senior Vice President of FT Floating Rate Management Inc. From 2002 to 2003, Mr. Blair acted in a consulting capacity as VP Advanced Strategies for Highstreet Asset Management Inc. of London, Ontario. Before joining Highstreet, he was Senior Vice President of Triax Capital Management Inc. From 1999 to 2001, Mr. Blair served as Executive Vice President of Integrated Asset Management Group, a prominent Canadian alternative asset management company. From 1994 to 1998, Mr. Blair was President and co-founder of Proteus Performance Management Inc., a pension consulting firm specializing in Pension Fund Governance. Mr. Blair holds a B.Sc. degree from The University of Western Ontario.

M. Craig Brown - Mr. Brown has been a partner at the law firm of Fasken Martineau DuMoulin LLP since April, 2002. He is chair of the firm's Emerging Global Business Group. Prior thereto, he was a partner at Aird & Berlis LLP from 1998 to 2002 and from 1991 to 1994. Mr. Brown lived in Bermuda from 1994 to 1998 where he practised corporate finance law and was President of a Bermuda-based investment fund management and administration company. He is also Secretary of FT Floating Rate Management Inc. and First Defined Portfolio Management Co. Mr. Brown holds a B.A. (Economics) from The University of Western Ontario and an LL.B. from The University of Windsor/University of Western Ontario.

Lawrence Guy - Mr. Guy has over seven years experience in the investment business working directly with closed end funds, labour sponsored funds and various specialty limited partnerships. He is currently a Vice President of First Defined Portfolio Management Co. with responsibility for product development, marketing and operations and is Vice President of FT Floating Rate Management Inc. Prior to joining First Defined Portfolio Management Co., Mr. Guy was Vice President Sales of Fairway Capital Management Corp. a specialized financial services firm created in late 2003. Prior to Fairway, Mr. Guy was Vice President Sales with Lawrence & Company Inc. where he coordinated and directed the marketing program for the Lawrence Enterprise Fund. From 1999 to 2002, Mr. Guy held the position of Vice President Sales with Triax Capital Corporation where he assisted in the creation and distribution of numerous closed end fund offerings. Mr. Guy holds a BA (Economics) degree from The University of Western Ontario.

Liberty Rivera - Ms. Rivera has over 13 years experience in the financial industry. She has been with First Defined Portfolio Management Co. since July 2001 and is currently the Vice President of Operations, responsible for operations and compliance. Ms. Rivera is also Vice President of FT Floating Rate Management Inc. From 1998 to 2001, Ms. Rivera was a Business Systems Analyst with Royal Trust - RBC Financial Group. Prior to joining Royal Trust, Ms. Rivera was a Senior Fund Accountant and Conversion Specialist with Canada Trust Co. Ms. Rivera holds a degree in Business Administration with a major in Accounting from PSBA, Manila, Philippines.

Independent Directors of the Manager

The board of the Manager includes three directors that are independent of the Manager (other than in their role as directors of the Manager), the Advisor, the Sub-Advisor, the Fund and the Senior Loan Trust (the "Independent Directors") and currently free from any interest and any business or other relationship which could, or could be reasonably perceived to, materially interfere with the exercise of their independent judgement. The initial Independent Directors of the Manager are Messrs. Howell, Szucs and Turner. See "Manager - Directors and Officers of the Manager" for biographical information on Messrs. Howell, Szucs and Turner.

The Independent Directors will collectively provide the Manager with independent advice and assist the Manager in carrying out its obligations under the Declaration of Trust in the event of any conflicts of interest,

potential conflicts of interest or related party transactions (each a “Conflict” and collectively “Conflicts”) identified by the Manager.

The Manager will notify the Independent Directors in writing of any Conflicts identified by the Manager concerning the Manager, the Fund or the Senior Loan Trust (other than Conflicts which require approval of Unitholders in accordance with the terms of the Declaration of Trust) and will consult with the Independent Directors in respect of any Conflicts. In the event of a dispute between the Independent Directors and the Manager with respect to a Conflict, the Manager shall, upon written direction from the Independent Directors, call a meeting of Unitholders to consider the Conflict.

The Manager will report to the Independent Directors on the operation and performance of the Senior Loan Trust on a quarterly basis including with respect to compliance with the Investment Guidelines and material contracts of the Fund in force from time to time.

The Fund’s annual report to Unitholders will include a report of the Independent Directors disclosing any recommendations made by the Independent Directors, including recommendations made and not followed by the Manager, and any other matter the Independent Directors deem appropriate.

All fees and expenses of the Independent Directors will be paid by the Fund. In addition, the Fund will have the authority to retain at the expense of the Fund independent counsel or other advisors if the Independent Directors deem it appropriate to do so.

The Independent Directors will be indemnified by the Fund, except in cases of wilful misconduct, bad faith, negligence or breach of their duty of care. The Independent Directors may serve in a similar capacity in respect of other entities managed by the Manager.

Remuneration of Directors and Officers of the Manager

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

Declaration of Trust

Pursuant to the Declaration of Trust, the Manager has authority to manage the business and affairs of the Fund and to make all decisions regarding the business of the Fund and has authority to bind the Fund. The Manager may delegate certain of its powers to third parties where, in the discretion of the Manager, it would be in the best interests of the Fund and the Unitholders to do so. The Manager is required to exercise its powers and perform its duties honestly, in good faith and in the best interests of the Unitholders and to exercise the care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances. The Declaration of Trust provides that the Manager will not be liable in any way for any default, failure or defect in, or any loss or diminution of value of, any assets of the Fund provided that it has satisfied the duties and the standard of care, diligence and skill set forth above. The Manager will incur liability, however, in cases of wilful misconduct, bad faith, negligence or disregard of its duties or standard of care, diligence and skill or material breach or default of the Manager’s obligations under the Declaration of Trust. Among other restrictions imposed on the Manager, it may not terminate the Fund or wind up the Fund’s affairs except in accordance with the provisions of the Declaration of Trust.

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

- (i) managing relationships with the Advisor, the Custodian, Valuation Agent, Transfer Agent, auditors, legal counsel and other organizations or professionals serving the Fund;
- (ii) monitoring the suitability of the investment guidelines of the Fund and the Advisor’s compliance therewith and proposing any amendments to such guidelines;

- (iii) the provision of such audit, accounting, legal, insurance and other professional services as are reasonably required or desirable for the purpose of the Fund from time to time and the authorization and payment on behalf of the Fund of expenses incurred on behalf of the Fund in connection therewith, as well as the negotiation of contracts with third party providers of services;
- (iv) the provision of office space, telephone service, office equipment, the preparation of accounting, management and other reports, including periodic and annual reports to Unitholders, financial statements, tax reporting, maintenance of the books and records of the Fund and the supervision of compliance by the Fund with record keeping requirements under applicable regulatory regimes;
- (v) the calculation of the amount, and the determination of the frequency, of distributions by the Fund;
- (vi) communications and correspondence with Unitholders and the preparation of notices of distributions to Unitholders;
- (vii) general investor relations and responding to investors' inquiries in respect of the Fund;
- (viii) dealing with banks and custodians, including the maintenance of bank records and the negotiation and securing of bank financing or refinancing;
- (ix) obtaining such insurance as the Manager considers appropriate for the Fund, the Trustee, the Manager and their directors and officers;
- (x) arranging for the provision of services by CDS for the administration of the Book-Entry Only System with respect to the Units;
- (xi) determining the form of certificate that will represent Units, if any;
- (xii) reviewing fees and expenses charged to the Fund and ensuring the timely payment thereof;
- (xiii) ensuring that the Fund complies with all regulatory requirements and applicable stock exchange listing requirements;
- (xiv) preparing and delivering the Fund's reports to, and dealing with, relevant securities regulatory authorities and any similar organization of any government or any stock exchange to which the Fund is obligated to report;
- (xv) the organization of any meetings of Unitholders;
- (xvi) providing or arranging for certain day-to-day administration, including the processing of redemptions and subscriptions and the calculation of Net Asset Value, NAV per Unit, income and net realized capital gains of the Fund and the reporting of the Net Asset Value and/or NAV per Unit to the financial press, as required;
- (xvii) maintaining or arranging for the maintenance of accounting and financial records and the provision of bookkeeping and other accounting services as required by the Fund;
- (xviii) reviewing and, if satisfactory, approving the valuation of the Fund's assets calculated by the Valuation Agent and, from time to time, considering the appropriateness of the valuation policies adopted by the Fund;
- (xix) monitoring the Fund's status as a "mutual fund trust" and taking commercially reasonable steps to ensure that it achieves and maintains that status;

- (xx) ensuring that Unitholders are provided with financial statements and other reports as required by applicable law from time to time;
- (xxi) preparing, executing and filing the Fund's income tax returns and financial statements, preparing financial information as required by the Fund and making appropriate elections and satisfying, performing and discharging the obligations and responsibilities of the Trustee under the Income Tax Act;
- (xxii) preparing and filing with the Canadian securities regulators any prospectus or similar document relating to the offering of Units or other securities of the Trust along with any continuous disclosure documents required under applicable securities legislation or stock exchange rules;
- (xxiii) applying for the listing of Units on a recognized stock exchange or exchanges;
- (xxiv) establishing the Fund's operating expense budgets and authorizing the payment of operating expenses;
- (xxv) arranging for the settlement of the Fund's obligations under the Forward Agreement and distribution to Unitholders of amounts determined appropriate from the proceeds of such settlement;
- (xxvi) subject to any express provision to the contrary, negotiating and entering into on behalf of the Fund any agreement, instrument or other document relating to the affairs of the Fund or performing any act or deed which it deems necessary or advisable and in the best interests of the Fund; and
- (xxvii) the provision of such other managerial and administrative services as may be reasonably required for the ongoing business and administration of the Fund.

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

The Manager may be removed with the approval of the Unitholders by an Extraordinary Resolution passed at a duly convened meeting of Unitholders called for the purpose of considering such resolution. The Manager may resign upon 120 days' notice to the Fund. If no new trustee is appointed within such 120-day period, the Fund will be terminated. The appointment of a new trustee (other than an affiliate of the Manager) requires the approval of the Unitholders by Ordinary Resolution.

The services of the Manager and the officers, directors and employees of the Manager are not exclusive to the Fund. The Manager and its affiliates and associates (as defined under Ontario securities laws) may, at any time, engage in any other activity including the administration of other funds or trusts. See "Conflicts of Interest".

ADVISOR

The Advisor

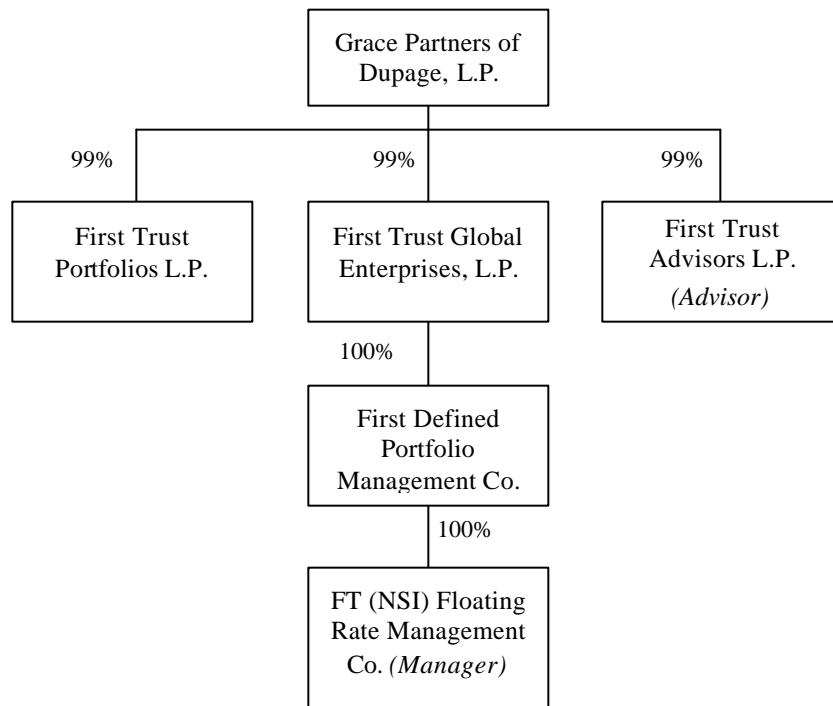
First Trust Advisors L.P. (the “Advisor”), a limited partnership formed under the laws of Illinois, has been retained to act as an investment advisor of the Fund and the Senior Loan Trust, and is responsible for the implementation of the overall investment strategy of the Fund and the Senior Loan Trust. The Advisor provides asset management, investment advisory and unit trust portfolio supervision services to its clients and had approximately U.S.\$17.26 billion in assets under management or supervision as of April 30, 2005. The Advisor is also advisor or sub-advisor to approximately 19 mutual fund portfolios and ten closed-end funds and as at April 30, 2005 the Advisor’s affiliate, First Trust Portfolios L.P., had created over 2,300 unit investment trusts since its inception in 1991. The Advisor was established in 1991 and is a privately held investment advisor. Currently, the Advisor, its affiliates and associates have over 200 employees in North America, including 27 investment professionals and research staff.

The Advisor is a non-Canadian advisor registered as an investment counsel and portfolio manager with the Ontario Securities Commission under the *Securities Act* (Ontario). The Advisor is an investment advisor registered with the Securities and Exchange Commission under the *Investment Advisers Act of 1940*. The Advisor’s principal office is located at 1001 Warrenville Road, Suite 300, Lisle, Illinois, U.S.A. 60532. The name and address of the agent for service of process of the Advisor in Ontario is Torys LLP, Maritime Life Tower, Suite 3000, 79 Wellington Street West, Box 270, Toronto-Dominion Centre, Toronto, ON M5K 1N2.

The Advisor will be the principal advisor of the Fund and the Senior Loan Trust. The Advisor will implement the Fund’s overall investment strategy which includes the acquisition of the Common Share Portfolio and the entering into of the Forward Agreement. The Advisor also will be responsible to the Senior Loan Trust for the services provided by the Sub-Advisor so long as the Sub-Advisor is relying on an exemption from the requirement to register as an advisor under Ontario securities laws. The Advisor will monitor the services provided by the Sub-Advisor to the Senior Loan Trust under the Investment Sub-Advisory Agreement. The fact that all or a substantial portion of the Advisor’s assets are situated outside Canada may make it more difficult to enforce legal rights against the Advisor than if it was organized or resident in Canada.

Ownership of Advisor

The Advisor is an affiliate of the Manager. The following diagram illustrates the relationship between the Advisor, the Manager and certain affiliated entities.



The Advisor has one limited partner, Grace Partners of DuPage L.P. (“Grace Partners”), and one general partner, The Charger Corporation. Grace Partners is a limited partnership with one general partner, The Charger Corporation, and a number of limited partners. The primary business of Grace Partners and The Charger Corporation is owning entities engaged in investment advisory and broker/dealer services. The Charger Corporation is an Illinois corporation controlled by the Robert Donald Van Kampen family.

Investment Advisory Agreements

Pursuant to the investment advisory agreement between the Manager, the Fund and the Advisor dated May 16, 2005, the Advisor will be responsible for the implementation of the Fund’s overall investment strategy. In addition, the Advisor has entered into an investment advisory agreement with the Manager and the Senior Loan Trust pursuant to which the Advisor has agreed to provide investment advisory services to the Senior Loan Trust.

Under the Investment Advisory Agreements with the Fund and the Senior Loan Trust, the Advisor is required to act at all times on a basis which is fair and reasonable to the Fund or the Senior Loan Trust, as applicable, to act honestly and in good faith with a view to the best interests of the unitholders of the applicable trust and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent investment manager would exercise in comparable circumstances. The Investment Advisory Agreements provide that the Advisor shall not be liable to the Manager, the Fund or the Senior Loan Trust, as applicable, a unitholder thereof or any other person for any loss in respect of an investment decision if such decision shall have been made with due care and in good faith, provided the Advisor has satisfied the duties and standard of care, diligence and skill set forth above and further provided the Advisor has not acted with wilful misconduct, bad faith, reckless disregard or negligence in the performance of its obligations and duties under the relevant Investment Advisory Agreement or materially breached the terms of the relevant Investment Advisory Agreement. Each of the Fund and the Senior Loan Trust shall indemnify the Advisor and its directors, officers, employees and agents and save them harmless in respect of all losses, liabilities, damages, expenses and costs incurred in connection with any action, suit or proceeding or other claim that is made against such Advisor or any of its directors, officers, employees or agents in the exercise of their duties under the relevant Investment Advisory Agreement, except those resulting from the Advisor’s wilful misconduct, bad faith, reckless disregard, negligence or material breach of its obligations and duties under such agreement.

Each Investment Advisory Agreement, unless terminated in accordance with its terms, will continue in effect until the termination of the Manager as trustee of the Fund or the Senior Loan Trust, as applicable. The Manager can terminate either Investment Advisory Agreement at any time on 30 days’ notice for breach thereof by the Advisor. The Advisor’s appointment under an Investment Advisory Agreement may be immediately terminated by the Manager if (i) the Advisor shall cease to carry on business, become bankrupt or insolvent, resolve to wind up, dissolve or liquidate, if a receiver of any of the assets of the Advisor is appointed or if the Advisor makes a general assignment for the benefit of its creditors, (ii) the Manager establishes that the Advisor has committed any fraud or material wrongdoing in conducting its business, generally or under the Investment Advisory Agreement, (iii) the Advisor has lost any registration, license or other authorization required of it to perform its services under the Investment Advisory Agreement or is not otherwise in compliance with any other law or regulation applicable to it, or (iv) the Manager determines that the Offering will not be completed. An Investment Advisory Agreement may be terminated by either party on 60 days’ notice to the other party. Each Investment Advisory Agreement may be assigned by the Advisor to an affiliate thereof. In addition, pursuant to the terms of the Investment Advisory Agreements, the Advisor may retain a sub-advisor to provide investment advisory and portfolio management services. The Advisor has appointed the Sub-Advisor to provide portfolio management services in respect of the Senior Loan Trust.

The Advisor is entitled to fees for providing investment management services. All such fees will be paid to the Advisor by the Manager.

SUB-ADVISOR

The Sub-Advisor

Highland Capital Management L.P. (the “Sub-Advisor”) serves as the investment sub-advisor to the Advisor in respect of the Senior Loan Trust. In this capacity, the Sub-Advisor is responsible for the selection and on-going monitoring of the assets in the Senior Loan Portfolio and leverage. The Sub-Advisor is a Delaware limited partnership founded in 1993. The principal office of the Sub-Advisor is located at 13455 Noel Road, Suite 1300, Dallas, Texas 75240. The Sub-Advisor also maintains offices at 245 Park Avenue, 39th Floor, New York, New York 10167 and 60 London Wall, London, United Kingdom EC2M 5TQ. The fact that the Sub-Advisor is resident outside Canada and all or a substantial portion of the Sub-Advisor’s assets are situated outside Canada may make it more difficult to enforce legal rights against the Sub-Advisor than if it was organized or resident in Canada.

The Sub-Advisor’s expertise in managing portfolios of Senior Loans and structured finance assets is particularly suited to the Senior Loan Trust’s focus on Senior Loans. As of March 31, 2005, the Sub-Advisor had approximately U.S.\$13.9 billion of assets under management which consisted of U.S.\$12.0 billion in leveraged loans, U.S.\$1.3 billion in high yield bonds and U.S.\$600 million in equity.

The Sub-Advisor’s investment philosophy is based on the belief that fundamental research and disciplined asset acquisition/disposition produce superior long-term results. The Sub-Advisor’s strategy seeks to maximize current yield over capital appreciation, while limiting downside risk. The investment approach is a top-down approach. The Sub-Advisor anticipates long-term secular trends and identifies those sectors and issues that have the highest relative value characteristics.

The Sub-Advisor has strong expertise in syndicated loans, high yield bonds and distressed investments. The Sub-Advisor is in a unique position to arbitrage disparities in the historical spread relationship between various below Investment Grade asset classes.

Ownership of the Sub-Advisor

The Sub-Advisor is a limited partnership 100% owned by senior management of the Sub-Advisor. The Sub-Advisor has one general partner, Strand Advisors, Inc. Strand Advisors, Inc. is a Delaware corporation.

Past Performance of Sub-Advisor

The past performance of the Sub-Advisor is indicated in the following table.

Highland Capital Management, L.P.

Senior Secured Loan Performance

January 1, 1993 to December 31, 2004

Total Returns Before Advisory Fees⁽¹⁾

(all dollar figures are in U.S.\$)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Annual ⁽²⁾	12.59%	9.28%	9.09%	9.17%	9.72%	5.01%	6.91%	5.17%	5.70%	3.33%	16.54%	9.58%
CSFB Leveraged Loan Index ⁽³⁾	11.17%	10.32%	8.91%	7.48%	8.30%	5.31%	4.69%	4.94%	2.65%	1.11%	11.01 %	5.60%
Performance over Index	1.42%	-1.04	0.18%	1.69%	1.42%	-0.30%	2.22%	0.23%	3.05%	2.21%	5.53%	3.98%
Total assets at end of period	\$503	\$654	\$720	\$428	\$1,773	\$3,408	\$4,834	\$5,082	\$6,049	\$6,796	\$6,866	\$10,092

of period
(millions)

- (1) Performance figures reflect all accounts managed during the period shown inclusive of performance from predecessor firm, Protective Asset Management, through 1996, in connection with the Sub-Advisor's management of portfolios of Senior Loans and structured finance assets. Performance results are before deduction of expenses, including management fees (which reduce performance). An explanation of the fees charged by the Sub-Advisor is contained in Part II of the Sub-Advisor's Form ADV, a copy of which will be provided upon request to the Manager or can be accessed through www.adviserinfo.sec.gov. The gross annualized return on the Sub-Advisor's loan investing is based on loan investments from across the Sub-Advisor's existing funds, structured products and separate accounts, which have varied fee and incentive terms. Actual fees and expenses (and returns) will vary depending on a variety of factors. Performance returns are calculated by geometrically linking dollar weighted and time weighted month-end returns. Senior secured loan performance does not include reinvestment of interest or other distributions.
- (2) Unrealized gains or losses are derived from market values which, with the exception of the bank debt, are reported market values provided by external third-party quotations or other sources (such as brokers/dealers) believed by the Sub-Advisor to provide reliable market quotations.

The Sub-Advisor determines fair values of its bank debt by utilizing broker/dealer published quotations or, in absence of formally published quotations, at the most recent trade or bid price obtained by the Sub-Advisor from dealers, brokers, investors or other industry sources. Fair market values of bank debt estimated by the Sub-Advisor may be different than those that would have been utilized had a ready market for the bank debt existed and the difference could materially affect the Senior Loan performance returns. Some of the portfolios invest in mezzanine and residual tranches of Collateralized Loan Obligation ("CLO") structures that are managed by the Sub-Advisor. The estimated fair value of investments in CLO mezzanine tranches is based on underlying net asset values of assets of the CLOs held in trust less senior obligations. The estimated fair value of investments in CLO residual tranches is derived from discounted cash flow analysis based on the Sub-Advisor's assumptions regarding future cash flows from quarterly distributions received from the excess interest after paying the interest distributions to the senior note holders, and investment advisor, trust and other related fees.

- (3) The Credit Suisse First Boston Leveraged Loan Index is designed to mirror the investible universe of the \$US-denominated leveraged loan market.

Prior performance is not a guarantee of future results. Unitholders may experience results which differ materially from those shown above.

Services Provided by the Sub-Advisor

The Sub-Advisor will provide investment advisory and portfolio management services to the Senior Loan Trust. In this capacity, the Sub-Advisor is responsible for the selection and ongoing monitoring of the assets in the Senior Loan Portfolio. Decisions as to the purchase and sale of the Senior Loan Trust's assets, as to borrowing, and as to the execution of all Senior Loan Portfolio transactions will be made by the Sub-Advisor, in accordance with and subject to the terms of the Investment Sub-Advisory Agreement (as described below).

Investment Sub-Advisory Agreement

The services to be provided by the Sub-Advisor pursuant to the Investment Sub-Advisory Agreement will include making all investment decisions for the Senior Loan Trust in accordance with the Investment Guidelines of the Senior Loan Trust.

Under the Investment Sub-Advisory Agreement, the Sub-Advisor is required to act at all times on a basis which is fair and reasonable to the Senior Loan Trust, to act honestly and in good faith with a view to the best interests of the unitholders of the Senior Loan Trust and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent investment manager would exercise in comparable circumstances. The Investment Sub-Advisory Agreement provides that the Sub-Advisor shall not be liable in any way for any error of judgment or mistake of law or for any loss suffered by the Senior Loan Trust in connection with the performance of the Sub-Advisor's duties except for a loss resulting from wilful misconduct, bad faith or negligence on the part of the Sub-Advisor in the performance of its duties under the Investment Sub-Advisory Agreement or by reason of its reckless disregard or material breach of its obligations and duties under the Investment Sub-Advisory Agreement.

In addition, the Sub-Advisor shall not be liable for any determination of the value of any securities or property held by the Senior Loan Trust in connection with the determination of the price or NAV of units of the Senior Loan Trust or any determination of the price or net asset value of units of the Fund.

The Investment Sub-Advisory Agreement, unless terminated in accordance with its terms, will continue in effect until the termination of the Investment Advisory Agreement in respect of the Senior Loan Trust. The Investment Sub-Advisory Agreement may be immediately terminated by the Advisor in the event of (i) a material breach of any of the covenants of the Sub-Advisor by the Sub-Advisor or any of its officers or directors; (ii) a material violation by the Sub-Advisor of the Senior Loan Trust's investment objectives or the Senior Loan Trust's or Sub-Advisor's policies or procedures that, in the opinion of the Advisor, would have a material adverse effect on the Senior Loan Trust, provided that the Sub-Advisor is first given a reasonable period of time to cure such violation; (iii) the failure by the Sub-Advisor to maintain the registration necessary to legally perform its duties under the Investment Sub-Advisory Agreement; (iv) any disqualification of the Sub-Advisor to act as investment sub-advisor for the Senior Loan Trust by a regulatory authority or court of competent jurisdiction; (v) not less than six (6) quarters of significant underperformance of the Senior Loan Trust when compared to the performance of an appropriate peer group; (vi) the insolvency or liquidation of the Sub-Advisor or if the Sub-Advisor becomes bankrupt or passes a resolution approving its winding-up or dissolution or deemed dissolution or makes a general assignment for the benefit of its creditors or (vii) the Sub-Advisor becomes sub-advisor for another distinct Canadian fund with similar objectives, policies and restrictions as the Senior Loan Trust, for which the Advisor is not the investment advisor, but only if the Sub-Advisor did not offer the Advisor the opportunity to act as investment advisor to such fund on substantially similar terms. For the purposes of clause (v) above, (a) significant underperformance shall mean that the Senior Loan Trust's performance, calculated gross of fees and expenses, is in the fourth (bottom) quartile of the performance of the peer group also calculated gross of fees and expenses, and as adjusted for the effects and costs of currency hedges; and (b) the peer group shall initially consist of certain closed-end funds agreed to by the Advisor and Sub-Advisor.

The Investment Sub-Advisory Agreement may also be terminated by the Sub-Advisor upon not less than 90 days' written notice to the Advisor in the event there are any significant changes to the investment objectives, policies and restrictions of the Senior Loan Trust. The Investment Sub-Advisory Agreement may also be terminated by the Sub-Advisor upon not less than 60 days' written notice to the Advisor in the event any of the following occur: (i) the Advisor ceases to be investment adviser to the Senior Loan Trust, (ii) the Sub-Advisor ceases to provide investment advisory services to any other portfolios which contain Senior Loans, or (iii) the Advisor becomes investment adviser for another distinct Canadian fund with similar investment objectives, policies and restrictions as the Senior Loan Trust, with a sub-advisor other than the Sub-Advisor, but only if the Advisor did not offer the Sub-Advisor the opportunity to act as sub-advisor to such fund on substantially the same terms. The Investment Sub-Advisory Agreement may also be terminated by the Sub-Advisor upon not less than 120 days' written notice to the Advisor in the event the Advisor shall have engaged in conduct as a result of which the Advisor shall have become subject to a legal or disciplinary event involving the Advisor or a management person of the Advisor that is material to the Advisor. In addition, the Investment Sub-Advisory Agreement may be terminated by the Advisor upon not less than 120 days' written notice in the event the Sub-Advisor shall have engaged in conduct as a result of which the Sub-Advisor shall have become subject to a legal or disciplinary event involving the Sub-Advisor or a management person of the Sub-Advisor that is material to the Sub-Advisor.

The Sub-Advisor is entitled to be paid a portfolio management fee by the Advisor as full compensation for the services it performed pursuant to the Investment Sub-Advisory Agreement and expenses incurred by it in connection therewith.

Pursuant to the terms of the Investment Sub-Advisory Agreement and a license agreement with the Fund, the Sub-Advisor has consented to the use of "Highland Capital" in the name of the Senior Loan Trust and the Fund, respectively.

Portfolio Managers of the Senior Loan Trust

Mark Okada and Joe Dougherty will be the portfolio managers of the Senior Loan Trust.

Mark Okada – Mr. Okada is a Founder and Chief Investment Officer of the Sub-Advisor. He is responsible for overseeing the Sub-Advisor’s investment activities for its various funds and has over 19 years of experience in the leveraged finance market. Before joining the Sub-Advisor, Mr. Okada served as Manager of Fixed Income for Protective Life’s GIC subsidiary from 1990 to 1993. He was primarily responsible for the bank loan portfolio and other risk assets. Protective was one of the first non-bank entrants into the syndicated loan market. From 1986 to 1990, he served as Vice President for Hibernia National Bank, managing over U.S.\$1 billion of high yield bank loans. Mr. Okada is an honors graduate of the University of California Los Angeles with degrees in Economics and Psychology. He completed his credit training at Mitsui and is a Chartered Financial Analyst. Mr. Okada is also Chairman of the Board of Directors of Common Grace Ministries Inc.

Joe Dougherty – Mr. Dougherty is a Senior Portfolio Manager at the Sub-Advisor. Additionally, Mr. Dougherty heads the Sub-Advisor’s retail funds business unit (“Highland Funds”) and serves as Senior Vice President and Director of the Sub-Advisor’s two NYSE-listed bond funds, which invest in both Investment Grade and high yield debt. Additionally, Mr. Dougherty serves as Senior Vice President and Director of the Sub-Advisor’s two registered floating rate funds, which primarily invest in senior secured floating rate loans. In this capacity, Mr. Dougherty oversees investment decisions for the retail funds, alongside several other Portfolio Managers, and manages the team dedicated to their day-to-day administration. Prior to his current duties, Mr. Dougherty served as Portfolio Analyst for the Sub-Advisor from 1998 to 1999. As a Portfolio Analyst, Mr. Dougherty also helped follow companies within the Chemical, Retail, Supermarket and Restaurant sectors. Prior to joining the Sub-Advisor, Mr. Dougherty served as an Investment Analyst with Sandera Capital Management from 1997 to 1998. Formerly, he was a Business Development Manager at Akzo Nobel from 1994 to 1996 and a Senior Accountant at Deloitte & Touche, LLP from 1992 to 1994. He received a BS in Accounting from Villanova University and an MBA from Southern Methodist University. Mr. Dougherty is a Chartered Financial Analyst and a Certified Public Accountant.

CONFLICTS OF INTEREST

The Manager, Advisor, Sub-Advisor and their respective directors, officers, affiliates and associates may carry on investment activities other than on behalf of the Fund and the Senior Loan Trust, including for other managed accounts and for their own accounts. The Manager, Advisor, Sub-Advisor and their respective directors, officers, affiliates and associates may, at any time, engage in the promotion, management or investment management of other funds, trusts or accounts which invest in securities that may be held by the Fund or the Senior Loan Trust and may provide similar services to other investment funds or segregated portfolios with investment objectives and strategies similar to that of the Fund or the Senior Loan Trust.

As a result of the foregoing, the Manager, Advisor, Sub-Advisor and their respective directors, officers, affiliates and associates are and will continue to be engaged in substantial activities other than on behalf of the Fund and the Senior Loan Trust and may have conflicts of interest in allocating their time and activity between the Fund, the Senior Loan Trust and their other investment accounts. However, these persons will devote as much time and attention to the affairs of the Fund and the Senior Loan Trust as is necessary and appropriate. In circumstances where other clients or funds under management by the Manager, Advisor and Sub-Advisor have the same or substantially similar investment objectives to the Fund or the Senior Loan Trust, the Manager, Advisor and Sub-Advisor will endeavour to ensure that the various clients under its management are treated in a fair and equitable manner.

DETAILS OF THE OFFERING

The Offering consists of a minimum of 5,000,000 Units and a maximum of 15,000,000 Units at a price of \$10.00 per Unit.

The Units

The Fund is authorized to issue an unlimited number of a single class of transferable, redeemable Units, each of which represents an equal, undivided beneficial interest in the net assets of the Fund. Units are freely transferable, except as provided under “Declaration of Trust – Non-Resident Unitholders” or as otherwise restricted by the Manager in order to comply with any applicable laws, regulations or other requirements imposed by regulatory authorities or to obtain, maintain or renew any licences, rights, status or powers pursuant to any

applicable laws, regulations or other requirements imposed by any stock exchange or other applicable regulatory authorities.

Each Unit entitles the holder to the same rights and obligations as a holder of any other Unit and no holder of Units is entitled to any privilege, priority or preference in relation to any other holder of Units. Each holder of Units is entitled to one vote for each whole Unit held and is entitled to participate equally with respect to any and all distributions made by the Fund, including distributions of net income and net realized capital gains, if any. On termination or liquidation of the Fund, the holders of outstanding Units of record are entitled to receive on a pro rata basis all of the assets of the Fund remaining after payment of all debts, liabilities and liquidation expenses of the Fund. See “Declaration of Trust – Termination of the Fund”.

The Declaration of Trust provides that the Fund will not issue additional Units following completion of the Offering, except: (i) where the net proceeds per Unit sold is not less than the NAV per Unit calculated on the date immediately prior to the entering into of the commitment by one or more subscribers to purchase such Units or prior to the pricing of the subsequent offering, as the case may be; (ii) by way of Unit distributions; or (iii) to, or at the direction of, the Manager in payment of the Management Fee at an issue price equal to the NAV per Unit on the payment date. Immediately after a pro-rata distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution. Subject to the foregoing, the Fund may also allot and issue other securities at such time or times and in such manner as the Manager in its sole discretion shall determine, provided that such issuance is not dilutive to the Unitholders.

Delivery Form and Denomination

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

The ability of a beneficial owner of Units to pledge such Units or otherwise take action with respect to such Unitholder’s interest in such Units (other than through a CDS Participant) may be limited due to the lack of a physical certificate. The Fund has the option to terminate registration of the Units through the Book-Entry Only System, in which case certificates for the Units in fully registered form would be issued to beneficial owners of such Units or their nominees.

DECLARATION OF TRUST

General

The Fund is an investment trust created pursuant to the Declaration of Trust and governed by the laws of the Province of Ontario.

Description of Units

See “Details of the Offering – The Units” for a description of the key terms of the Units.

Non-Resident Unitholders

At no time may (i) non-residents of Canada, (ii) partnerships that are not Canadian partnerships or (iii) a combination of non-residents of Canada and such partnerships (all as defined in the Tax Act), be the beneficial

owners of a majority of the Units and the Manager shall inform the transfer agent and registrar of this restriction. The Manager may require declarations as to the jurisdictions in which beneficial owners of Units are resident and if a partnership, its status as a Canadian partnership. If the Manager becomes aware, as a result of requiring such declarations as to beneficial ownership or otherwise, that the beneficial owners of 40% of the Units then outstanding are, or may be, non-residents and/or partnerships that are not Canadian partnerships, or that such a situation is imminent, the Manager may make a public announcement thereof. If the Manager determines that more than 40% of the Units are beneficially held by non-residents and/or partnerships that are not Canadian partnerships, the Manager may send a notice to such non-resident Unitholders and partnerships, chosen in inverse order to the order of acquisition or in such manner as the Manager may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not less than 30 days. If the Unitholders receiving such notice have not sold the specified number of Units or provided the Manager with satisfactory evidence that they are not non-residents or partnerships other than Canadian partnerships within such period, the Manager may on behalf of such Unitholders sell such Units and, in the interim, shall suspend the voting and distribution rights attached to such Units. Upon such sale, the affected holders shall cease to be beneficial holders of Units and their rights shall be limited to receiving the net proceeds of sale of such Units.

Repurchase of Units

To enhance liquidity and to provide market support for the Units, the Fund will have a mandatory market purchase program under which the Fund will, subject to certain exceptions contained in the Declaration of Trust and in compliance with any applicable regulatory requirements, be obligated to purchase for cancellation any Units offered in the market at the then prevailing market price if, at any time following the Closing Date, the price at which Units are then offered for sale is less than 95% of the NAV per Unit determined as at the close of business on the immediately preceding Business Day. The maximum number of Units to be purchased in any three month period (commencing with the three month period that begins on the first day of the month following the Closing Date) will be 1.25% of the number of Units outstanding at the beginning of such period. The Declaration of Trust provides that the Fund will not be obligated to make such purchases if, among other things, (i) the Fund lacks the cash, debt capacity or other resources to make such purchases, or (ii) in the opinion of the Manager, such market purchases would adversely affect the on-going activities of the Fund.

The Declaration of Trust provides that, subject to applicable law, the Fund may, in its sole discretion, from time to time purchase (in the open market or by invitation for tenders) Units for cancellation up to a maximum in any 12-month period of 10% of the number of Units outstanding at the commencement of such period, in all cases at a price per Unit not exceeding the NAV per Unit on the Valuation Date immediately prior to the date of any such purchase of Units. It is expected that these purchases will be made as normal course issuer bids through the facilities and under the rules of the TSX or such other exchange or market on which the Units are then listed.

Meetings of Unitholders

A meeting of Unitholders may be convened by the Manager at any time and must be convened if requisitioned in writing by holders of not less than 10% of outstanding Units. Not less than 21 days' notice will be given for any meeting of Unitholders. The quorum for any meeting of Unitholders is two or more Unitholders present in person or represented by proxy holding not less than 10% of the Units then outstanding. If a quorum is not present at such meeting when called, the meeting, if convened upon the request of Unitholders, shall be dissolved, but in any other case shall be adjourned for not less than 14 days and the Unitholders present in person or represented by proxy at such adjourned meeting shall form the necessary quorum.

Acts Requiring Unitholder Approval

The approval of Unitholders by an Extraordinary Resolution passed at a meeting called for the purpose of considering such Extraordinary Resolution is required for the removal of, or change in, the Manager other than a change resulting in an affiliate of such person assuming the position.

In addition, the following may only be undertaken with the approval of Unitholders by an Extraordinary Resolution:

- (i) the liquidation, dissolution or termination of the Fund prior to May 31, 2015, except that the Manager may, in its discretion, terminate the Fund without the approval of Unitholders if, in the opinion of the independent directors of the Manager, NAV is reduced as the result of redemptions or otherwise so that it is no longer economically feasible to continue the Fund and it would be in the best interests of the Unitholders to terminate the Fund;
- (ii) the sale of all or substantially all of the assets of the Fund other than in the ordinary course;
- (iii) any change in the investment objectives or restrictions of the Fund, unless such changes are necessary to ensure compliance with applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time;
- (iv) any increase in the fees payable to the Manager;
- (v) any amendment, modification or variation in the provisions or rights attaching to the Units other than as permitted under the terms of the Declaration of Trust (as described below under “Amendments to the Declaration of Trust”); and
- (vi) any change in the frequency of calculating NAV per Unit to less often than weekly.

Amendments to the Declaration of Trust

Except for changes to the Declaration of Trust that require the approval of Unitholders or a change discussed below, the Declaration of Trust may be amended from time to time by the Manager upon not less than 30 days’ prior written notice to Unitholders.

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

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

The Fund, subject to obtaining all necessary regulatory approvals, does not intend to hold annual meetings of Unitholders. However, the Fund will hold annual meetings of Unitholders if required by the TSX.

Information and Reports to Unitholders

The Fund will furnish to Unitholders such financial statements (including periodic unaudited and annual audited financial statements, accompanied by management’s discussion and analysis of the affairs and operations of the Fund) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders’ tax returns under the Tax Act and equivalent provincial or territorial legislation. The financial information will also be available on the Manager’s website (www.firsttrust.ca).

Prior to any meeting of Unitholders, the Fund will provide to Unitholders (along with notice of such meeting) all such information as is required by applicable law to be provided to Unitholders. The fiscal year of the Fund shall be, initially, the period commencing on the date of the Declaration of Trust and ending on December 31, 2005, and thereafter shall be a calendar year.

Take-over Bids

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

Termination of the Fund

The Fund will continue until the Termination Date and thereupon will terminate unless an alternative to termination is approved by the Unitholders. The Fund shall, after settlement of the Forward Agreement and after paying or making adequate provision for all of the Fund's liabilities, distribute the net assets of the Fund to the Unitholders as soon as practicable after the Termination Date. The payment of the net assets of the Fund to Unitholders after the Termination Date is expected, subject to the performance of the Senior Loan Trust and the Counterparty, to consist of an amount equal to the redemption proceeds of the Notional Investment in units of the Senior Loan Trust. The Manager may, in its discretion and upon not less than 30 days' prior written notice to Unitholders, extend the Termination Date by a period of up to 365 days, if the Manager would otherwise be unable to convert all the Fund's assets to cash prior to the original Termination Date and the Manager determines that it would be in the best interests of the Unitholders to do so.

The Fund may be terminated at any time upon not less than 90 days' written notice by the Manager with the approval of Unitholders by an Extraordinary Resolution and passed at a duly convened meeting of Unitholders called for the purpose of considering such Extraordinary Resolution, provided that Unitholders holding at least 10% of the Units outstanding on the record date of the meeting vote in favour of such Extraordinary Resolution. The Manager may, in its discretion, terminate the Fund without the approval of Unitholders if, in the opinion of the independent directors of the Manager, NAV is reduced as the result of redemptions or otherwise so that it is no longer economically feasible to continue the Fund and it would be in the best interests of the Unitholders to terminate the Fund.

The Fund will also be terminated in the event of the resignation or removal of the Manager if a replacement Manager has not been appointed within 120 days of the date upon which the Manager gives notice of its resignation.

DISTRIBUTIONS

In accordance with the Fund's investment objective to provide Unitholders with monthly distributions which will fluctuate with changes in U.S. short term interest rates, the Fund will endeavour to make monthly distributions to Unitholders of record on the last Business Day of each month (the "Record Date"). Distributions will be paid no later than the tenth Business Day of the subsequent month (the "Distribution Payment Date"). The Fund expects that the initial monthly distribution will be payable to Unitholders of record on July 29, 2005. There can be no assurance that the Fund will be able to achieve its monthly distribution objective or make such payments on any Distribution Payment Date.

Monthly cash distributions over the life of the Fund will be derived from the proceeds of disposition of Common Share Portfolio securities. These proceeds will be received by the Fund from the Counterparty under the Forward Agreement. Accordingly, the distributions paid to Unitholders will correspond to the monthly distributions of the Senior Loan Trust (less any expenses of the Fund) which will be derived primarily from net income earned on the Senior Loan Portfolio and, in certain circumstances, from net gains from dispositions of investments in the Senior Loan Portfolio and, as a result, will fluctuate from month to month. Under the Forward Agreement, if the Senior Loan Trust suspends redemptions or fails to pay distributions on its units corresponding to the Fund's targeted distributions, the Counterparty will suspend payment in respect of a partial settlement until such time as such redemptions and distributions are reinstated. In such circumstances, the Fund would be unable to pay its targeted distributions.

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

The amount of distributions in any particular calendar month will be determined by the Manager, having regard to the investment objectives of the Fund, the net realized capital gains and net income of the Fund and the Senior Loan Trust, if any, during the calendar month and in the year to date, the net realized capital gains and net income of the Fund and the Senior Loan Trust anticipated in the balance of the year and distributions made in previous months. The initial monthly distribution of the Fund is expected to be an amount per Unit which, if sustained at that rate, would represent an annualized yield of approximately 6.0% on the subscription price of \$10.00 per Unit. See “Investment Guidelines of the Senior Loan Trust - Investment Strategies”. Up to 100% of the Management Fee may be paid in Units, at the option of the Manager. The payment of the Management Fee in Units will have the effect of providing additional cash flow for distributions to Unitholders but will result in a dilution to the NAV per Unit equivalent to the cash payment of the Management Fee.

Because the Senior Loan Trust invests primarily in Senior Loans whose interest rates are typically reset on average every 120 days, the distributions paid by the Fund will typically move up and down based on movement in prevailing U.S. short-term interest rates. Unitholders may expect the Senior Loan Portfolio’s reset to be longer than average during periods of rising short-term interest rates and shorter than average during periods of falling interest rates.

The Manager anticipates that, of the distributions anticipated to be made in the initial period of the Fund’s life, only a very small portion will represent capital gains, with the balance representing returns of capital. Thereafter the Manager anticipates that the proportion of capital gains to returns of capital will increase as the Fund disposes of more Common Share Portfolio securities on the partial settlement of the Forward Agreement. The actual amounts of capital gains distributed to Unitholders in each year will depend on the proceeds of disposition realized by the Fund on the disposition of Common Share Portfolio securities under the Forward Agreement and the adjusted cost base of such securities. See “Canadian Federal Income Tax Considerations”.

REDEMPTION OF UNITS

Units may be surrendered for redemption not more than 60 days, and at least 30 days, prior to the Annual Redemption Date, to the transfer agent and registrar of the Fund. Units surrendered for redemption by a Unitholder will be redeemed as at such Redemption Date and the Unitholder will receive payment in respect of any Units surrendered for redemption on or before the Redemption Payment Date.

Unitholders whose Units are redeemed on the Annual Redemption Date in any year will be entitled to receive a redemption price per Unit (the “Redemption Price”) equal to the NAV per Unit determined on the Annual Redemption Date less any expenses incurred by the Fund including those incurred to partially settle the Forward Agreement and any brokerage costs. The NAV per Unit will vary depending on the performance of the Fund, which depends on a number of factors, including the market value of the Senior Loans and other securities in the Senior Loan Trust where sufficient liquidity exists for such a determination, market perceptions of the issuers of the Senior Loans and other securities in the Senior Loan Trust, the performance of the Senior Loan and high yield debt markets generally and interest rates. See “Risk Factors – Changes in Interest Rates and – Discount From and Premium to Net Asset Value”.

In addition to the annual redemption right, Units may be surrendered for redemption at least 20 Business Days prior to the second last Business Day of each month commencing August 2005, except for the month of June (when Units may only be surrendered for redemption pursuant to the annual redemption right described above). Unitholders whose Units are redeemed on any Monthly Redemption Date will receive a Redemption Price per Unit equal to the lesser of (i) 95% of the Market Price of the Units, and (ii) 100% of the Closing Market Price of the Units on the applicable Monthly Redemption Date less, in each case, any costs associated with the redemption, including those incurred to partially settle the Forward Agreement and brokerage costs.

Any unpaid distribution payable on or before an Annual or Monthly Redemption Date in respect of Units tendered for redemption on such date will also be paid on the Redemption Payment Date.

The Manager may, without the approval of Unitholders (but subject to regulatory approval), change the redemption rights attached to the Units on not less than 30 days' notice to Unitholders, provided that no such change may be made without Unitholder approval if it would eliminate the rights of Unitholders to redeem their Units on the Annual Redemption Date in any year at a Redemption Price equal to the NAV per Unit or if it would result in the Fund being a mutual fund for securities law purposes.

A Unitholder who desires to exercise Unit redemption privileges must do so by causing a CDS Participant, which includes securities brokers and dealers, banks and trust companies, to deliver to CDS (at its office in the City of Toronto) on behalf of the Unitholder a written notice of the Unitholder's intention to redeem Units, no later than 5:00 p.m. (Toronto time) on the relevant notice date. A Unitholder who desires to redeem Units should ensure that the CDS Participant is provided with notice of his or her intention to exercise his or her redemption right sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver a notice to CDS by the required time. By causing a CDS Participant to deliver to CDS a notice of a Unitholder's intention to redeem Units, the Unitholder shall be deemed to have irrevocably surrendered his or her Units for redemption and appointed such CDS Participant to act as his or her exclusive settlement agent with respect to the exercise of such redemption privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise. Any redemption notice that CDS determines to be incomplete, not in proper form or not duly executed shall, for all purposes, be void and of no effect, and the redemption privilege to which it relates shall be considered, for all purposes, not to have been exercised thereby. A failure by a CDS Participant to exercise redemption privileges or to give effect to the settlement thereof in accordance with a Unitholder's instructions will not give rise to any obligations or liability on the part of the Fund or the Manager to the CDS Participant or the Unitholder.

The Manager may suspend the redemption of Units or payment of redemption proceeds or the mandatory market purchase of Units of the Fund for any period not exceeding 120 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Fund or the Senior Loan Trust or which impair the ability of the Manager to determine the value of the assets of the Fund or the Senior Loan Trust. The suspension may, at the sole discretion of the Manager, apply to all requests for redemption received prior to the suspension but as for which payment has not been made, as well as to all requests received while the suspension is in effect. All Unitholders making such requests shall be advised of the suspension and of their right to withdraw their request for redemption. Redemptions so suspended and not withdrawn will be effected at a price determined on the first Valuation Date following the termination of the suspension. The suspension shall terminate on the first day on which the condition giving rise to the suspension has ceased to exist provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with applicable law or the official rules and regulations promulgated by any stock exchange having jurisdiction over the Fund, any declaration of suspension made by the Manager shall be conclusive.

Under the Forward Agreement, if the Senior Loan Trust suspends redemptions or otherwise does not pay redemption proceeds in the event a unitholder provides notice of redemption, the Counterparty will suspend payment in respect of a settlement of the Forward Agreement until such time as such redemptions are reinstated. In such circumstances, the Fund may be unable to pay the redemption proceeds in respect of any Units tendered for redemption. If the Counterparty or one of its affiliates subscribes for units of the Senior Loan Trust, it will waive its right to enforce payment of redemption proceeds by the Senior Loan Trust. In addition, any eligible assignee of such units will be subject to the same waiver. The Fund cannot compel the Senior Loan Trust to pay redemption proceeds and cannot compel a unitholder of the Senior Loan Trust (including the Counterparty, if applicable) to enforce payment by the Senior Loan Trust of redemption proceeds.

VALUATION

Valuation of Assets

The Valuation Agent will, on the close of business on each Valuation Date, calculate the value of the assets of the Fund and the Senior Loan Trust pursuant to the terms of the Fund Administration Services Agreement.

The total assets of the Fund consist of the aggregate value of the assets of the Common Share Portfolio and the Forward Agreement. Since the value of the Fund's rights and obligations under the Forward Agreement is determined by reference to the value of the Senior Loan Portfolio, the NAV of the Fund is linked to the value of the Senior Loan Portfolio. The Manager, together with the Advisor, will review and, if satisfactory, approve the valuation and will, from time to time, consider the appropriateness of the valuation policies adopted by the Fund and the Senior Loan Trust, as such policies are modified from time to time in the discretion of the Manager, acting reasonably, and in the best interests of Unitholders.

Net Asset Value

NAV of the Fund and the Senior Loan Trust will be calculated by the Valuation Agent on each Valuation Date by subtracting the aggregate amount of the liabilities of the Fund or the Senior Loan Trust, as applicable, from the total assets of the Fund or the Senior Loan Trust, as applicable.

Senior Loans

The Senior Loans in which the Senior Loan Trust will invest are not listed on any securities exchange or board of trade. Senior Loans are typically bought and sold by institutional investors in individually negotiated private transactions that function in many respects like an over-the-counter secondary market, although typically no formal market-makers exist. This market, while having grown substantially in the past several years, generally has fewer trades and less liquidity than the secondary market for other types of securities. Some Senior Loans have few or no trades, or trade infrequently, and information regarding a specific Senior Loan may not be widely available or may be incomplete. Accordingly, determinations of the market value of Senior Loans may be based on infrequent and dated information. Because there is less reliable, objective data available, elements of judgment may play a greater role in valuation of Senior Loans than for other types of securities. For further information, see "Risk Factors – Limited Liquidity in Secondary Market for Senior Loans" and "- Valuation of Senior Loans."

Senior Loans with readily available quotations shall be valued using the current quotations provided by Loan Pricing Corporation or another prominent pricing service. Senior Loans for which current quotations are not readily available shall be valued at fair value. When applicable, fair value will be determined by the Advisor. In valuing the Senior Loan Trust's investments in Senior Loans, consideration is given to several factors, which may include, among others, the following:

- (i) the fundamental business data relating to the Borrower;
- (ii) an evaluation of the forces which influence the market in which these securities are purchased and sold;
- (iii) the type, size and cost of holding;
- (iv) the financial statements of the Borrower;
- (v) the credit quality and cash flow of the issuer, based on the Advisor's or external analysis;
- (vi) the information as to any transactions in or offers for the holding;
- (vii) the price and extent of public trading in similar securities (or equity securities) of the Borrower, or comparable companies;
- (viii) the coupon payments;
- (ix) the quality, value and saleability of collateral securing the loan;
- (x) the business prospects of the Borrower, including any ability to obtain money or resources from a parent or affiliate and an assessment of the Borrower's management; and

- (xi) the prospects for the Borrower's industry and multiples (of earnings and/or cash flow) being paid for similar businesses in that industry.

The assets and liabilities of the Fund and the Senior Loan Trust, other than Senior Loans, will be valued as follows:

- (i) the value of any security which is listed or traded upon a stock exchange shall be determined by taking the latest available sale price of recent date, or lacking any recent sales or any record thereof, the simple average of the latest available offer price and the latest available bid price (unless, in the opinion of the Valuation Agent, such value does not reflect the value thereof and in which case the latest offer price or bid price should be used), as at the Valuation Date, all as reported by any means in common use;
- (ii) the value of any cash on hand or on deposit, prepaid expenses, cash dividends received (or distributions declared to Unitholders of record on a date before the Valuation Date as of which the NAV is being determined and to be received) and interest accrued and not yet received, shall be deemed to be the face amount thereof unless the Valuation Agent has determined that any such asset is not otherwise worth the face amount thereof, in which case the value thereof shall be deemed to be such value as the Advisor determines to be the fair value thereof;
- (iii) the value of a forward contract shall be the gain or loss with respect thereto that would be realized if, on the Valuation Date, the position in the forward contract were to be closed out in accordance with its terms;
- (iv) the value of any bonds, debentures and other debt obligations will be valued by taking the average of the bid and ask prices on the Valuation Date at such times as the Valuation Agent, in its discretion, deems appropriate. Leverage borrowings will be valued at par. Short term investments, including notes and money market instruments, will be valued at cost plus accrued interest; and
- (v) if an investment cannot be valued under the foregoing rules or if the foregoing rules are at any time considered by the Valuation Agent to be inappropriate under the circumstances, then notwithstanding the foregoing rules, the Valuation Agent and/or the Advisor shall make such valuation as it considers fair and reasonable.

The value of all assets quoted or valued in terms of foreign currency, the value of all funds on deposit and contractual obligations payable in foreign currency and the value of all liabilities and contractual obligations payable in foreign currency shall be determined using the applicable rate of exchange current at, or as nearly as practicable to, the date on which the NAV is computed.

The NAV per Unit is the amount obtained by dividing the NAV of the Fund as of a particular date by the total number of Units outstanding on that date. The NAV per Unit will be calculated on a weekly basis by the Valuation Agent. The NAV of the Fund or NAV per Unit will be provided by the Manager to Unitholders through the Internet at www.firsttrust.ca.

The process of valuing investments for which no published market exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments and may differ from the prices at which the investments may be sold.

In discharging its valuation duties, the Valuation Agent shall be entitled to rely on reports prepared for it by the Manager.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Fasken Martineau DuMoulin LLP, counsel to the Fund, and Davies Ward Phillips & Vineberg LLP, counsel to the Agents, the following is, as of the date hereof, a summary of the principal Canadian

federal income tax considerations generally applicable to the acquisition, holding and disposition of Units by a Unitholder who acquires Units pursuant to this prospectus. This summary is applicable to a Unitholder who is an individual (other than a trust) and who, for the purposes of the Tax Act, is resident in Canada, deals at arm's length with the Fund and holds Units as capital property. Generally, Units will be considered to be capital property to a Unitholder provided the Unitholder does not hold the Units in the course of carrying on a business of trading or dealing in securities and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain Unitholders who might not otherwise be considered to hold their Units as capital property may, in certain circumstances, be entitled to have them treated as capital property by making an election in accordance with the Tax Act.

This summary is based on the assumptions that the Common Share Portfolio will consist of "Canadian securities" for the purposes of the Tax Act and that the Fund will elect in accordance with the Tax Act to have each of its Canadian securities treated as capital property. This summary is based on the current provisions of the Tax Act, counsel's understanding of the current published administrative and assessing practices of the CRA and the Tax Proposals. This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, nor does it take into account provincial or foreign income tax legislation or considerations. There can be no assurance that the Tax Proposals will be enacted in the form publicly announced or at all.

This summary is not exhaustive of all possible Canadian federal tax considerations applicable to an investment in Units. Moreover, the income and other tax consequences of acquiring, holding or disposing of Units will vary depending on the investor's particular circumstances including the province or provinces in which the investor resides or carries on business. Counsel expresses no views herein in respect of the deductibility of interest on any funds borrowed by a Unitholder to purchase Units. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any investor. Investors should consult their own tax advisors for advice with respect to the income tax consequences of an investment in Units, based on their particular circumstances.

Status of the Fund

This summary is based on the assumptions that the Fund will qualify at all times as a "mutual fund trust" within the meaning of the Tax Act and that the Fund will elect under the Tax Act to be a mutual fund trust from the date it was established. If the Fund were not to qualify as a mutual fund trust, the income tax considerations as described below and under "Eligibility for Investment" would in some respects be materially different.

Taxation of the Fund

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

The Fund will be entitled for each taxation year throughout which it is a mutual fund trust to reduce (or receive a refund in respect of) its liability, if any, for tax on its net realized capital gains by an amount determined under the Tax Act based on the redemptions of Units during the year ("Capital Gains Refund"). The Capital Gains Refund in a particular taxation year may not completely offset the tax liability of the Fund for such taxation year which may arise upon the sale of Common Share Portfolio securities pursuant to the Forward Agreement in connection with redemptions of Units.

In computing its income for tax purposes, the Fund may deduct reasonable administrative and other expenses incurred to earn income. The Fund may deduct the costs and expenses of this Offering paid by the Fund and not reimbursed at a rate of 20% per year, pro-rated where the Fund's taxation year is less than 365 days.

The Fund will not realize any income, gain or loss as a result of entering into the Forward Agreement. Provided the Fund elects in accordance with the Tax Act to have each of its Canadian securities treated as capital property, gains or losses realized by the Fund on the sale of the Common Share Portfolio will be taxed as capital gains or capital losses. If the obligations of the Fund and the Counterparty under the Forward Agreement are settled by making cash payments, a payment made or received by the Fund may be treated as an income outlay or receipt, as applicable. If the Fund delivers securities in the Common Share Portfolio to the Counterparty in satisfaction of its obligations under the Forward Agreement and receives a payment from the Counterparty equal to the price stipulated in the Forward Agreement, the Fund will realize capital gains (losses) equal to the amount by which such purchase price (less reasonable costs of disposition) exceeds (or is less than) the aggregate adjusted cost base of such securities.

On October 31, 2003 the Department of Finance announced a Tax Proposal relating to the deductibility of losses under the Tax Act, applicable to taxation years beginning after 2004. Under this Tax Proposal, a taxpayer will be considered to have a loss from a business or property for a taxation year only if, in that year, it is reasonable to expect that the taxpayer will realize a cumulative profit from the business or property during the time that the taxpayer has carried on, or can reasonably be expected to carry on, the business or has held, or can reasonably be expected to hold, the property. Profit, for this purpose, does not include capital gains or capital losses. If this Tax Proposal were to apply to the Fund, deductions that would otherwise reduce the Fund's taxable income could be denied, with after-tax returns to the Unitholders reduced as a result. On February 23, 2005, the Minister of Finance (Canada) announced that an alternative proposal to replace the Tax Proposal of October 31, 2003 would be released for comment at an early opportunity. It will be necessary for the Fund to monitor its activities having regard to the October 31, 2003 Tax Proposal and any alternative proposal.

Taxation of Unitholders

A Unitholder will generally be required to include in computing income for a taxation year the amount of the Fund's net income for the taxation year, including net realized taxable capital gains, paid or payable to the Unitholder in the taxation year. The non-taxable portion of the Fund's net realized capital gains paid or payable (whether in cash or in Units) to a Unitholder in a taxation year will not be included in the Unitholder's income for the year. Any other amount in excess of the Fund's net income for a taxation year paid or payable to the Unitholder in the year will not generally be included in the Unitholder's income. Such amount, however, will generally reduce the adjusted cost base of the Unitholder's Units. To the extent that the adjusted cost base of a Unit would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Unitholder from the disposition of the Unit and the Unitholder's adjusted cost base will be increased by the amount of such deemed gain.

Provided that appropriate designations are made by the Fund, such portion of (i) the net realized taxable capital gains of the Fund, and (ii) the taxable dividends received or deemed to be received by the Fund on shares of taxable Canadian corporations, as is paid or payable to a Unitholder, will effectively retain its character and be treated as such in the hands of the Unitholder for purposes of the Tax Act. To the extent that amounts are designated as taxable dividends from taxable Canadian corporations, the normal gross-up and dividend tax credit rules will apply.

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

The NAV per Unit will reflect any income and gains of the Fund that have accrued at the time Units are acquired. Accordingly, a Unitholder who acquires Units may become taxable on the Unitholder's share of income and gains of the Fund that accrued before the Units were acquired. The purchase price for the Common Share Portfolio under the Forward Agreement from time to time may significantly exceed the aggregate adjusted cost base of the securities comprising the Common Share Portfolio. Therefore, there may be significant accrued gains in the Fund prior to the settlement of the Forward Agreement on or about the Termination Date.

On the disposition or deemed disposition of a Unit (including on a redemption), the Unitholder will realize a capital gain (or capital loss) to the extent that the Unitholder's proceeds of disposition (other than any amount payable by the Fund which represents an amount that is otherwise required to be included in the Unitholder's income as described above and net of any reasonable costs of disposition) exceed (or are less than) the adjusted cost base of Units. For the purpose of determining the adjusted cost base to a Unitholder, when a Unit is acquired, the cost of the newly acquired Units will be averaged with the adjusted cost base of all Units owned by the Unitholder as capital property before that time. For this purpose the cost of Units that have been issued as a distribution as contemplated under "Distributions" will generally be equal to the amount of the net income or capital gain distributed to the Unitholder in Units.

One-half of any capital gain ("taxable capital gain") realized on the disposition of Units will be included in the Unitholder's income and one-half of any capital loss realized may be deducted from taxable capital gains in accordance with the provisions of the Tax Act.

In computing a Unitholder's income for purposes of the Tax Act, any taxable capital gain designated to the Unitholder in accordance with the provisions of the Tax Act (arising from the settlement of the Forward Agreement (or otherwise)) may be netted against any allowable capital loss realized by the Unitholder, including any allowable capital loss realized on the disposition of Units to the Fund on redemption.

In general terms, net income of the Fund paid or payable to a Unitholder that is designated as net realized taxable capital gains or dividends from taxable Canadian corporations or taxable capital gains realized on the disposition of Units may increase the Unitholder's liability for alternative minimum tax.

ELIGIBILITY FOR INVESTMENT

In the opinion of Fasken Martineau DuMoulin LLP, counsel to the Fund, and Davies Ward Phillips & Vineberg LLP, counsel to the Agents, provided that the Fund qualifies as a "mutual fund trust" within the meaning of the Tax Act, the Units offered hereby will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans or registered education savings plans. Based on the current provisions of the Tax Act, provided that the Fund qualifies as a "mutual fund trust" within the meaning of the Tax Act and complies with its investment restrictions relating to the acquisition and holding of foreign property, Units will not constitute foreign property for the purposes of the tax imposed under Part XI of the Tax Act. If these conditions are not satisfied, Units may be foreign property in certain circumstances. On February 23, 2005, the Minister of Finance (Canada) proposed that the limit in respect of foreign property that may be held by registered pension plans, registered retirement savings plans and other deferred plans be eliminated for 2005 and subsequent years.

USE OF PROCEEDS

The Fund's estimated net proceeds from the sale of Units are set out in the following table.

	<u>Maximum Offering</u>	<u>Minimum Offering</u>
Gross proceeds to the Fund	\$150,000,000	\$50,000,000
Agents' fee	\$7,500,000	\$2,500,000
Expenses of issue ⁽¹⁾	\$1,000,000	\$1,000,000
Net proceeds to the Fund	<u><u>\$141,500,000</u></u>	<u><u>\$46,500,000</u></u>

(1) Includes leverage implementation costs of \$300,000.

The Fund will use the net proceeds of the Offering (including any net proceeds from the exercise of the Over-Allotment Option) to invest in the Common Share Portfolio which will be subject to the Forward Agreement.

PLAN OF DISTRIBUTION

Pursuant to the Agency Agreement, the Agents have agreed to offer Units for sale as agents of the Fund, on a best efforts basis, if, as and when issued by the Fund, in accordance with the terms and conditions of the Agency Agreement. Units will be offered at a price of \$10.00 per Unit. The Agents will receive a fee equal to \$0.50 for each Unit sold and will be reimbursed for reasonable out-of-pocket expenses incurred by them. The Agents may form a sub-agency group including other qualified investment dealers and determine the fee payable to the members of such group, which fee will be paid by the Agents out of their fees. While the Agents have agreed to use their best efforts to sell Units offered hereby, the Agents will not be obligated to purchase Units that are not sold.

The Fund has granted the Agents an Over-Allotment Option to offer up to 15% of the aggregate number of Units issued at the Closing of the Offering, which Units are qualified for sale hereunder. The Agents may exercise the Over-Allotment Option in whole or in part, at any time on or before the close of business on the 30th day following the Closing Date of the Offering. To the extent the Over-Allotment Option is exercised, the additional Units will be offered by the Agents at the offering price hereunder and the Agents will be entitled to receive a fee of \$0.50 in respect of each Unit sold. This prospectus qualifies the grant of the Over-Allotment Option as well as distribution of the Units issuable upon the exercise of the Over-Allotment Option.

Proceeds from subscriptions will be held by the Agents in trust in a segregated account until the Closing of the Offering. If subscriptions for a minimum of 5,000,000 Units have not been received within 90 days following the date of issuance of a final receipt for the prospectus, the Offering may not continue without the consent of the Canadian securities regulators and those who have subscribed on or before such date. Under the terms of the Agency Agreement, the Agents may, at their discretion on the basis of their assessment of the state of the financial markets and upon the occurrence of certain stated events, terminate the Agency Agreement and withdraw all subscriptions for Units on behalf of subscribers.

In the event the minimum Offering is not achieved by the date that is 90 days following the date of issuance of a final receipt for the prospectus and the necessary consents are not obtained or the Closing of the Offering does not occur for any reason, subscription proceeds received from prospective purchasers will be returned to such purchasers promptly without interest or deduction. Subscriptions for Units will be received subject to rejection or allotment by the Manager in whole or in part. In the event that a subscription is rejected, all monies received with the subscription will be refunded immediately. The right is reserved to close the subscription books at any time without notice. The Closing of the Offering will take place on or about May 31, 2005 or such later date as may be agreed on by the Fund and the Agents that is on or before July 29, 2005. There is currently no market through which the Units can be sold. Accordingly, the Offering price of \$10.00 per Unit was determined by negotiation between the Agents and the Manager, on behalf of the Fund.

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

Scotia Capital Inc., one of the Agents, is an affiliate of The Bank of Nova Scotia, the chartered bank that will enter into the Forward Agreement with the Fund and will be providing liquidity support to the conduit lender under the secured credit facility of the Senior Loan Trust. Scotia Capital Inc. also acts as administrator and agent for the initial conduit lender. Scotiabank (Ireland) Limited will facilitate the warehousing program described under "Investment Guidelines of the Senior Loan Trust – Investment Portfolio". Consequently, the Fund may be considered a "connected issuer" of Scotia Capital Inc. under applicable securities legislation.

Scotia Capital Inc. will receive no benefit in connection with the Offering other than receiving a portion of the Agents' fee and a portion of the service fee described under "Service Fee" above.

The TSX has conditionally approved the listing of Units, subject to the fulfillment by the Fund of the requirements of such stock exchange on or before July 27, 2005, including distribution to a minimum number of Unitholders. The Units will be listed for trading under the symbol "FHM.UN".

FEES AND EXPENSES

Initial Fees and Expenses

The expenses of the Offering (including the costs of creating and organizing the Fund and the Senior Loan Trust, the costs of printing and preparing the prospectus of the Fund and the Senior Loan Trust, legal expenses, marketing and advertising expenses and other reasonable out-of-pocket expenses) including those incurred by the Agents and other incidental expenses, which are estimated to be \$700,000 in the aggregate, will be paid out of the gross proceeds of the Offering. The Manager has agreed to pay all expenses incurred in connection with the Offering that exceed 1.5% of the gross proceeds of the Offering. In addition, the Agents' commission will be paid to the Agents from the gross proceeds as described under "Plan of Distribution". In addition, the Senior Loan Trust will incur leverage implementation costs estimated to be approximately \$300,000 in connection with the structuring and negotiating the credit facility. These implementation costs include legal fees, due diligence expenses and a commitment fee.

Management Fee

The Manager has coordinated the organization of the Fund and the Senior Loan Trust, will work with the Agents in developing and implementing all aspects of the Fund's communications, marketing and distribution strategies and will manage the on-going business and administrative affairs of the Fund and the Senior Loan Trust. As compensation for management services rendered to the Fund and the Senior Loan Trust, the Manager is entitled to receive an annual management fee in an aggregate amount equal to 0.75% of Managed Assets calculated and payable monthly in arrears plus applicable taxes. The Manager, in its capacity as manager of the Fund and the Senior Loan Trust, is responsible for payment of fees to the Advisor and the Advisor is responsible for payment of fees to the Sub-Advisor. Because the fee paid to the Manager will be calculated on the basis of the Senior Loan Trust's Managed Assets, which include the proceeds of leverage, the dollar amount of the Management Fee will be higher (and the Manager will be benefited to that extent) when leverage is utilized. In this regard, if the Senior Loan Trust uses leverage in the amount equal to 100% of its pre-leverage net assets, the Management Fee will be 1.5% of net assets.

The Manager has the option to elect to receive all or a portion of the Management Fee in Units of the Fund. The sole reason that the Manager would anticipate making such an election is to increase the cash available for distribution by the Fund (by the amount of Management Fee not paid in cash), thereby increasing the yield paid on the Units to Unitholders. It is important to note, however, that if the Fund pays the Manager in Units, the Fund will have to issue additional Units at the time of such payment. This will result in a dilution to the NAV per Unit of all Units outstanding at the time of such issuance. Although the payment of all or a portion of the Management Fee in Units can increase the yield on the Units, the total return on Units of the Fund is not expected to be higher if the Manager is paid in Units and may, in fact, be lower if the Manager is paid in Units than if the Manager is paid in exclusively cash.

This prospectus also qualifies the distribution of the right entitling the Manager to receive, upon exercise on or before the last Business Day of each month, payment of the Management Fee in Units. To the extent Units are issued from treasury for this purpose, Units will be issued at their NAV per Unit on the payment date. Units that are issued in this respect will be distributed in accordance with exemptions from applicable securities laws in a manner determined by the Manager. The Fund has reserved 50,000 Units to be issued from treasury to the Manager as payment of the Management Fee. Upon the issuance of all of the Units reserved for payment to the Manager, the Fund shall not issue additional Units to the Manager as payment of the Management Fee without the approval of Unitholders, by Ordinary Resolution.

Service Fee

A service fee will be paid by the Fund to each registered dealer whose clients hold Units. The service fee will be calculated and paid at the end of each calendar quarter and will be equal to 0.40% annually of the NAV for Units held by clients of the registered dealer.

On-going Expenses

The amount payable by the Counterparty to the Fund under the Forward Agreement will be reduced by approximately 0.45% per annum of the value of the Notional Investment in units of the Senior Loan Trust and 0.15% per annum on the value of the Common Share Portfolio. The latter reduction in the amount payable under the Forward Agreement, which may vary, is intended to compensate the Counterparty for the costs of hedging its exposure under the Forward Agreement, if it chooses to do so, and will equal the fees that would be charged to the Counterparty for borrowing securities matching the securities in the Common Share Portfolio.

Each of the Fund and the Senior Loan Trust will pay all expenses incurred in connection with its operation and administration. It is expected that these expenses will include, without limitation: the fee payable to the Manager; the Service Fee; mailing and printing expenses for periodic reports to unitholders; fees that may be payable to the Valuation Agent for performing certain valuation services; fees payable to the custodian; fees payable to the transfer agent and registrar for performing certain financial, record-keeping, reporting and general administrative services; fees payable to the auditors and legal advisors; on-going regulatory filing fees and other fees; debt service costs; fees payable in connection with a currency hedging program; and any reasonable out-of-pocket expenses incurred by the Manager or its agents in connection with their on-going obligations to the Fund. The Manager estimates that administration and operating costs for the Fund and the Senior Loan Trust will be approximately \$300,000 and \$100,000, respectively, per annum. A small amount of additional administration and operating costs may arise as a result of the establishment and operation of both the Senior Loan Trust and the Fund (as compared to other investment trust offerings where only one trust is established). The Fund and the Senior Loan Trust will also be responsible for any taxes payable by the Fund or Senior Loan Trust, as applicable or to which such entity may be subject, for interest expense on borrowings, and for expenses relating to portfolio transactions, as well as any extraordinary expenses which may be incurred from time to time.

RISK FACTORS

The following discussion summarizes some of the risks that Unitholders should consider before deciding whether to invest in the Fund.

Operating History and Marketability of Units

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

The Manager is an entity that was organized for the sole purpose of administering and managing the Fund and the Senior Loan Trust and has no prior operating history. Accordingly, the Manager has no prior experience in providing services as an administrator for a public investment trust. However, the officers and directors of the Manager have experience in acting as officers and directors of the managers of other investments trusts.

Credit Risk

The Fund's ability to pay distributions is dependent upon the performance of the assets of the Senior Loan Trust. That performance, in turn, is subject to a number of risks, and in particular, the credit risk of the underlying assets of the Senior Loan Trust. Credit risk is the risk of non-payment of scheduled interest and/or principal payments. Credit risk is also the risk that one or more investments in the Senior Loan Portfolio will decline in price, or fail to pay interest or principal when due, because the issuer of the security experiences a decline in its financial status. The value of Senior Loans is affected by the creditworthiness of Borrowers and by general economic and

specific industry conditions. If the Senior Loan Trust acquires a Senior Loan from another lender, for example, by acquiring a participation, the Senior Loan Trust may also be subject to credit risks with respect to that lender.

Ability to Realize Benefits of Collateral Securing Senior Loans

In the event a Borrower fails to pay scheduled interest or principal payments on a Senior Loan held by the Senior Loan Trust, the Senior Loan Trust will experience a reduction in its income and a decline in the market value of the Senior Loan, which will likely reduce distributions and lead to a decline in the NAV per Unit.

Senior Loans generally involve less risk than unsecured or subordinated debt and equity instruments of the same issuer because the repayment of principal and payment of interest on Senior Loans is a contractual obligation of the issuer that, in most instances, takes precedence over the payment of dividends, or the return of capital, to the issuer's shareholders and payments to subordinated bondholders. The Senior Loan Trust will generally invest in Senior Loans that are secured with specific collateral. However, the value of the collateral may not equal the Senior Loan Trust's investment when the Senior Loan is acquired or may decline below the principal amount of the Senior Loan subsequent to the Senior Loan Trust's investment and there may be no obligation under the Senior Loan for the Borrower to pledge additional collateral. Also, to the extent that collateral consists of stock of the Borrower's subsidiaries or affiliates, the Senior Loan Trust bears the risk that the stock may decline in value, be relatively illiquid, and/or may lose all or substantially all of its value, causing the Senior Loan to be undercollateralized. Therefore, the liquidation of the collateral underlying a Senior Loan may not satisfy the issuer's obligation to the Senior Loan Trust in the event of non-payment of scheduled interest or principal, and the collateral may not be readily liquidated.

In the event of the bankruptcy of a Borrower, the Senior Loan Trust could experience delays and limitations on its ability to realize the benefits of the collateral securing the Senior Loan. Among the credit risks involved in a bankruptcy are assertions that the pledge of collateral to secure a Senior Loan constitutes a fraudulent conveyance or preferential transfer that would have the effect of nullifying or subordinating the Senior Loan Trust's rights to the collateral.

Below Investment Grade Debt Instruments

Investing in below Investment Grade debt instruments involves additional risks than investing in Investment Grade debt instruments. Below Investment Grade debt instruments are securities rated BB (high) or lower by DBRS or BB+ or lower by Standard & Poor's, comparably rated by another NRSRO or, if unrated, of comparable credit quality. Investment decisions will be based largely on the credit analysis performed by the Sub-Advisor, and not on rating agency evaluations. This analysis may be difficult to perform. Information about a Senior Loan and its issuer generally is not in the public domain. Moreover, Senior Loans may not be rated by any NRSRO. Many issuers will not have issued securities to the public and may not be subject to reporting requirements under U.S. federal securities laws. Generally, however, issuers are required to provide financial information to lenders and information may be available from other Senior Loan participants or agents that originate or administer Senior Loans.

Below Investment Grade debt instruments may become the subject of bankruptcy proceedings or otherwise subsequently default as to the repayment of principal and/or payment of interest or be downgraded to ratings in the lower rating categories. Issuers of below Investment Grade debt instruments are not perceived to be as strong financially as those with higher credit ratings, so the securities are usually considered speculative investments. These issuers are generally more vulnerable to financial setbacks and recession than more creditworthy issuers which may impair their ability to make interest and principal payments. Below Investment Grade debt instruments tend to be less liquid than higher grade debt instruments.

Below Investment Grade debt instruments carry particular market risks and may experience greater volatility in market value than Investment Grade debt instruments. The market's perception of the issuers and the creditworthiness of the issuers may significantly affect the value of these securities. Some of these securities may have a structure that makes their reaction to interest rate changes and other market factors difficult to predict, causing their value to be highly volatile. The secondary market for below Investment Grade debt instruments may be

less liquid than the markets for higher quality debt instruments, and this may have an adverse effect on the market value of certain securities.

Below Investment Grade debt instruments face market, issuer and other risks, and their values may go up and down, sometimes rapidly and unpredictably. Market risk is the risk that securities may decline in value due to factors affecting securities markets generally or particular industries. Issuer risk is the risk that the value of a security may decline for reasons relating to the issuer, such as changes in the financial condition of the issuer.

The Senior Loan Trust could lose money if the issuer of a Senior Loan or other below Investment Grade debt instrument is unable to meet its financial obligations or goes bankrupt. The Senior Loan Trust may be subject to more credit risk than other income funds because it invests in below Investment Grade debt instruments, which are considered predominantly speculative with respect to the issuer's continuing ability to meet interest and principal payments. This is especially true during periods of economic uncertainty or economic downturns.

The value of a below Investment Grade debt instrument may fall when interest rates rise. Debt instruments with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than debt instruments with shorter durations.

Below Investment Grade debt instruments may be less liquid than higher quality instruments. The Senior Loan Trust could lose money if it cannot sell a security at the time and price that would be most beneficial to the Senior Loan Trust. A security in the lowest rating categories, that is unrated, or whose credit rating has been lowered may be particularly difficult to sell. Valuing less liquid securities involves greater exercise of judgment and may be more subjective than valuing securities using market quotes.

Ongoing Monitoring of Senior Loans

On behalf of several lenders, the agent generally will be required to administer and manage the Senior Loans and, with respect to collateralized Senior Loans, to service or monitor the collateral. In this connection, the valuation of assets pledged as collateral will reflect market value and the agent may rely on independent appraisals as to the value of specific collateral. The agent, however, may not obtain an independent appraisal as to the value of assets pledged as collateral in all cases. Additionally, the terms of the loan agreement may enable the agent, upon proper authorization of the lenders, to take possession of and liquidate the collateral and to distribute the liquidation proceeds pro rata among the lenders. The Senior Loan Trust normally will rely primarily on the agent (where the Senior Loan Trust owns an assignment) or the selling lender (where the Senior Loan Trust owns a participation) to collect principal of and interest on a Senior Loan. Furthermore, the Senior Loan Trust usually will rely on the agent (where the Senior Loan Trust owns an assignment) or the selling lender (where the Senior Loan Trust owns a participation) to monitor compliance by the Borrower with the restrictive covenants in the loan agreement and notify the Senior Loan Trust of any adverse change in the Borrower's financial condition or any declaration of insolvency. Lenders that have sold participation interests in such Senior Loan will distribute liquidation proceeds received by the lenders pro rata among the holders of such participations. The Sub-Advisor will also monitor these aspects of the Senior Loan Trust's investments and, where the Senior Loan Trust owns an assignment, will be directly involved with the agent and the other lenders regarding the exercise of credit remedies.

Prepayment Risk

Borrowers may pay back principal before the scheduled due date. Borrowers may find it advantageous to prepay principal due to a decline in interest rates or an excess in cash flow. Prepayments cannot be predicted with accuracy. Such prepayments may require the Senior Loan Trust to replace a Senior Loan with a lower-yielding security. This may adversely affect the NAV. In addition, upon a prepayment, the actual outstanding debt on which the Senior Loan Trust derives income will be reduced. However, the Senior Loan Trust may receive both a prepayment penalty fee from the Borrower and a facility fee upon the purchase of a new Senior Loan with the proceeds from the prepayment of the former. Such fees should help to mitigate any adverse impact on the Senior Loan Trust's yield that result from prepayment.

Limited Information

The types of Senior Loans in which the Senior Loan Trust will invest historically have not been registered with the United States Securities and Exchange Commission or any state securities commission, and have not been listed on any national securities exchange. Although the Senior Loan Trust will generally have access to financial and other information made available to the lenders in connection with Senior Loans, the amount of public information available with respect to Senior Loans will generally be less extensive than that available for registered or exchange listed securities. As a result, the performance of the Senior Loan Trust (and consequently the Fund) and their ability to meet their investment objectives are more dependent on the analytical ability of the Sub-Advisor than would be the case for an investment fund that invests primarily in registered or exchange-listed securities.

Changes in Interest Rates

Changes in market interest rates will affect the Senior Loan Portfolio. The principal effect will be that the yield on the Senior Loan Portfolio will tend to rise or fall as market interest rates rise and fall. This is because Senior Loans pay interest at rates which float in response to changes in short-term market interest rates. However, because the interest rates on the Senior Loans reset over time, there will be an imperfect correlation between changes in market rates and changes to rates on the Senior Loan Portfolio. This means that changes to the interest paid on the Senior Loan Portfolio as a whole will tend to lag behind changes in market rates.

The value of a Senior Loan is partially a function of whether it is paying what the market perceives to be a market rate of interest for the particular Senior Loan, given its individual credit and other characteristics. If market interest rates change, a Senior Loan's value could be affected to the extent the interest rate paid on that loan does not reset at the same time. The rates of interest paid on the Senior Loans in which the Senior Loan Trust intends to invest will typically have a reset period that is approximately 120 days, but can range from 30 days to 360 days.

To the extent that changes in total rates of interest are reflected not in a change to a base rate such as LIBOR but in a change in the spread over the base rate which is payable on Senior Loans of the type and quality in which the Senior Loan Trust invests, the Senior Loan Trust's NAV may be affected. Again, this is because the value of a Senior Loan in the Senior Loan Trust is partially a function of whether it is paying what the market perceives to be an appropriate total rate of interest for the particular Senior Loan, given its individual credit and other characteristics. However, unlike changes in market rates of interest for which there is only a temporary lag before the Senior Loan Portfolio reflects those changes, changes in a Senior Loan's value based on changes in the market spread on Senior Loans held by the Senior Loan Trust may be of longer duration.

Discount From or Premium to Net Asset Value

An investment in the Units is subject to investment risk, including the possible loss of the entire amount of a Unitholder's investment. Investment in Units represents an indirect investment in the securities and investments owned by the Senior Loan Trust. The value of these securities and investments, like other market investments, may move up or down, sometimes rapidly and unpredictably and sometimes due to market factors that may be unrelated to the Senior Loan Trust's securities and investments. The Units at any point in time may be worth less than what the Unitholder invested. In addition, units of closed-end investment trusts frequently trade at a discount from their NAV. This risk may be greater for investors expecting to sell their Units soon after completion of the Offering. The Units of the Fund were designed primarily for long-term investors, and investors in the Units should not view the Fund as a vehicle for trading purposes. The possibility that the Units may trade at a discount from NAV is a risk separate and distinct from the risk that the Fund's NAV may decrease.

Leverage Risk

The Senior Loan Trust may borrow an amount that is not more than 100% of the value of its pre-leverage net assets. Although such use of leverage by the Senior Loan Trust may create an opportunity for increased return for the Senior Loan Trust and therefore the Units, it also results in additional risks and can magnify the effect of any losses. If the income and gains earned on the securities and investments purchased with borrowing proceeds are greater than the cost of the borrowing and fees thereon, the Units' return will be greater than if leverage had not

been used. Conversely, if the income or gains from the securities and investments purchased with such proceeds does not cover the cost of borrowing and fees thereon, the return on the Units will be less than if leverage had not been used. There is no assurance that a leveraging strategy will be successful. Leverage involves risks and special considerations for Unitholders including:

- (i) the likelihood of greater volatility of NAV and market price of the Units than a comparable portfolio without leverage;
- (ii) the risk that fluctuations in interest rates on the Senior Loan Trust's borrowings and short-term debt held by the Senior Loan Trust may reduce the return to Unitholders or may result in fluctuations in the distributions paid on the Units; and
- (iii) the effect of leverage in a declining market, which is likely to cause a greater decline in the NAV of the Units than if the fund were not leveraged, which may result in a greater decline in the market price of the Units.

The Sub-Advisor, in its judgment, nevertheless may determine to continue to use leverage if it expects that the benefits to Unitholders of maintaining the leveraged position will outweigh the current reduced return.

The funds borrowed pursuant to a leverage borrowing program (such as a secured credit facility) constitute a substantial lien and burden by reason of the prior claim of the lenders of such funds against the income of the Fund and against the net assets of the Senior Loan Trust in liquidation. The rights of lenders to receive payments of interest on, and repayments of, principal of any borrowings made by the Senior Loan Trust under a leverage borrowing program are senior to the rights of unitholders of the Senior Loan Trust with respect to the payment of distributions or upon liquidation. Under a leverage borrowing program, the Senior Loan Trust may not be permitted to redeem units held by the Counterparty, unless at the time thereof, the Senior Loan Trust meets certain asset coverage requirements and no event of default otherwise exists. In addition, the Senior Loan Trust may not redeem units held by the Counterparty unless all accrued interest on borrowings have been paid or set aside for payment. In the case of an event of default under a leverage borrowing program, the lenders have the right to cause a liquidation of collateral (*i.e.*, sell Senior Loans and other assets of the Senior Loan Trust) and, if any such event of default is not cured, the lenders may be able to control the liquidation as well. Certain types of leverage may result in the Senior Loan Trust being subject to covenants relating to asset coverage and Senior Loan Trust composition requirements.

While the Senior Loan Trust may from time to time consider reducing leverage in response to actual or anticipated changes in interest rates in an effort to mitigate the increased volatility of current income and NAV associated with leverage, there can be no assurance that the Senior Loan Trust will actually reduce leverage in the future or that any reduction, if undertaken, will benefit the Unitholders.

Restrictive Covenants

With respect to a leverage borrowing program instituted by the Senior Loan Trust, the credit agreements governing such a program will likely include usual and customary covenants for this type of transaction, including, but not limited to, limits on the Senior Loan Trust's ability to: (i) incur liens or pledge portfolio securities or investments; (ii) change its investment objectives or fundamental investment restrictions without the approval of lenders; (iii) make changes in any of its business objectives, purposes or operations that could result in a material adverse effect; (iv) make any changes in its capital structure; (v) amend the Senior Loan Trust documents in a manner which could adversely affect the rights, interests or obligations of any of the lenders; (vi) engage in any business other than the business currently engaged in; and (vii) create, incur, assume or permit to exist certain debt except for certain specific types of debt. In addition, the Senior Loan Trust may not be able to renew a leverage borrowing program on acceptable terms.

Secondary Market for the Fund's Units

When the Units are trading at a higher price than NAV, the Fund may issue Units of the Fund that may be sold through private transactions effected on the TSX or through broker-dealers. The increase in the number of outstanding Units resulting from these offerings may put downward pressure on the market price for Units.

Limited Liquidity in Secondary Market for Senior Loans

Although the resale, or secondary market, for Senior Loans is growing, it is currently limited. There is no organized exchange or board of trade on which Senior Loans are traded. Instead, the secondary market for Senior Loans is an unregulated inter-dealer or inter-bank resale market.

Senior Loans usually trade in large denominations (typically U.S.\$1 million and higher) and trades can be infrequent. The market has limited transparency so that information about actual trades may be difficult to obtain. Accordingly, some or many of the Senior Loans in which the Senior Loan Trust invests will be relatively illiquid. Illiquid securities may be difficult to dispose of at a fair price at the times when the Senior Loan Trust believes it is desirable to do so. The market price of illiquid securities generally is more volatile than that of more liquid securities, which may adversely affect the price that the Senior Loan Trust pays for or recovers upon the sale of illiquid securities.

In addition, Senior Loans in which the Senior Loan Trust invests may require the consent of the Borrower and/or agent prior to sale or assignment. These consent requirements can delay or impede the Senior Loan Trust's ability to sell Senior Loans and can adversely affect the price that can be obtained. The Senior Loan Trust may have difficulty disposing of Senior Loans if it needs cash to repay debt, to pay distributions, to satisfy redemption requests, to pay expenses or to take advantage of new investment opportunities. In addition, if the Senior Loan Trust purchases a relatively large assignment of a Senior Loan to generate extra income sometimes paid to large lenders, the limitations of the secondary market may inhibit the Senior Loan Trust from selling a portion of the Senior Loan and reducing its exposure to the Borrower when the Sub-Advisor deems it advisable to do so.

Valuation of Senior Loans

The Senior Loan Trust will value its Senior Loans weekly. However, because the secondary market for Senior Loans is limited, it may be difficult to value Senior Loans. Market quotations may not be readily available for some Senior Loans and valuation may require more research than for more liquid securities. In addition, elements of judgment may play a greater role in the valuation of Senior Loans than for securities with a more active secondary market, because there may be less reliable objective data available.

Demand for Senior Loans

Although the volume of Senior Loans has increased in recent years, demand for Senior Loans has also grown. An increase in demand may benefit the Senior Loan Trust by providing increased liquidity for Senior Loans, but may also adversely affect the rate of interest payable on Senior Loans acquired by the Senior Loan Trust, the price of Senior Loans acquired in the secondary markets and the rights provided to the Senior Loan Trust under the terms of some Senior Loans in the Senior Loan Trust.

No Assurance of Monthly Distributions or Payment of Redemption Proceeds

There is no assurance that the Fund will be able to pay monthly distributions or satisfy redemption requests. The Fund expects to exercise its right to partially settle the Forward Agreement prior to the Termination Date in order to permit the Fund to fund monthly distributions as well as redemptions of Units by Unitholders from time to time, payment for purchases of Units in the market, expenses and other liabilities of the Fund and general liquidity requirements. Accordingly, the Fund's ability to pay distributions and satisfy redemption requests will be influenced by the performance of the Senior Loan Trust, as the return to the Unitholders and the Fund will be dependent upon the return on the Senior Loan Trust by virtue of the Forward Agreement. Under the Forward Agreement, if the Senior Loan Trust fails to pay the distributions declared on its units or satisfy redemption requests, the Counterparty

will suspend payment to the Fund under the Forward Agreement until such time as the distributions and redemptions of the Senior Loan Trust are reinstated.

Counterparty Risk

The Fund will enter into the Forward Agreement with the Counterparty pursuant to which the Fund will be required to deliver to the Counterparty on the Termination Date the Common Share Portfolio in exchange for a cash payment in an amount equal to the redemption proceeds of a Notional Investment in units of the Senior Loan Trust or the appropriate party will make a net cash settlement payment to the other party. In entering into the Forward Agreement, the Fund will be exposed to the credit risk associated with the Counterparty. Depending on the value of the Common Share Portfolio, the Fund's exposure to the credit risk of the Counterparty may be significant. In addition, the possibility exists that the Counterparty will default on its payment obligations under the Forward Agreement or that the proceeds of the Forward Agreement will be used to satisfy other liabilities of the Fund, which liabilities could include obligations to third-party creditors in the event the Fund has insufficient assets, excluding the proceeds of the Forward Agreement, to pay its liabilities. Unitholders will have no recourse or rights against the assets of Senior Loan Trust or the Counterparty.

The Counterparty is not responsible for the returns of the Senior Loan Portfolio. Pursuant to the terms of the Forward Agreement, if amounts to be paid by the Senior Loan Trust in respect of distributions declared by the Senior Loan Trust or in respect of units of the Senior Loan Trust tendered for redemption are outstanding, the Counterparty may defer its payment obligations to the Fund under the Forward Agreement until such time as the distributions and redemptions are reinstated by the Senior Loan Trust. If the Counterparty or one of its affiliates subscribes for units of the Senior Loan Trust, it will waive its right to enforce payment of redemption proceeds by the Senior Loan Trust. In addition, any eligible assignee of such units will be subject to the same waiver. The Fund cannot compel the Counterparty to make a payment under the Forward Agreement during a time of deferral and cannot compel a unitholder in the Senior Loan Trust (including the Counterparty, if applicable), to enforce its rights as a unitholder of the Senior Loan Trust to be paid such distributions or redemption proceeds.

Treatment of Proceeds under the Forward Agreement

In determining its income for tax purposes, the Fund will treat gains or losses on the disposition of securities in the Common Share Portfolio under the Forward Agreement as capital gains and losses. The CRA's practice is not to grant advance income tax rulings on the characterization of items as capital gains or income and no advance income tax ruling has been requested or obtained.

If, contrary to the advice of counsel to the Fund and to the Agents or as a result of a change of law, upon physical settlement of the Forward Agreement the character and timing of the gain under the Forward Agreement were other than a capital gain on the sale of the securities thereunder, after-tax returns to Unitholders could be reduced.

Reference Portfolio Risk

It is a condition of Closing that the Senior Loan Trust be capitalized on Closing by an amount equal to at least the net proceeds of the Offering. If the capitalization of the Senior Loan Trust is not maintained to the extent of the Notional Investment, the Forward Agreement may be terminated.

Special Situation Investments

The Senior Loan Trust may hold up to 20% of its total assets, measured at the time of investment, in Special Situation Investments which may include unsecured Senior Loans, subordinated loans or a subordinated portion of a Senior Loan. Unsecured Senior Loans and subordinated loans share the same credit risks as those discussed above under "Credit Risk" except that unsecured Senior Loans are not secured by any collateral of the Borrower and subordinated loans are not the most senior debt in a Borrower's capital structure. The primary additional risk in both an unsecured Senior Loan and a subordinated loan is the greater potential loss in the event of default by the issuer of the loan. Furthermore, subordinated loans and subordinated portions of Senior Loans in an

insolvency bear an increased share, relative to senior lenders, of the ultimate risk that the Borrower's assets are insufficient to meet its obligations to its creditors.

Investing in Special Situation Investments involves a far greater level of risk than investing in issuers whose debt obligations are being met and whose debt trades at or close to its "par" value. While offering a greater potential opportunity for capital appreciation, Special Situation Investments are highly speculative with respect to the issuer's ability to continue to make interest payments and/or to pay its principal obligations in full. Special Situation Investments can be very difficult to properly value, making them susceptible to a high degree of price volatility and rendering them less liquid than performing debt obligations. Those Special Situation Investments involved in a bankruptcy proceeding can be subject to a high degree of uncertainty with regard to both the timing and the amount of the ultimate settlement. Special Situation Investments may also include debtor-in-possession financing, sub-performing real estate loans and mortgages, public and privately placed senior, mezzanine, subordinated and junior debt, letters of credit, trade claims, convertible bonds, and preferred and common stocks received in debt restructurings.

Short-Term Debt Securities

The Senior Loan Trust may invest in short-term debt securities. Short-term debt securities are subject to the risk of the issuer's inability to meet principal and interest payments on the obligation and also may be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity.

Because short-term debt securities pay interest at a fixed rate, when interest rates decline, the value of the Senior Loan Trust's short-term debt securities can be expected to rise, and when interest rates rise, the value of those securities can be expected to decline.

Investments in Equity Securities Incidental to Investment in Senior Loans

The Senior Loan Trust may also acquire equity securities in connection with a reorganization of a Borrower. Although the Senior Loan Trust does not intend to hold such investments, investments in equity securities entail certain risks in addition to those associated with investments in Senior Loans. The value of the equity securities may be affected more rapidly, and to a greater extent, by company-specific developments and general market conditions. These risks may increase fluctuations in the NAV. The Senior Loan Trust may frequently possess material non-public information about a Borrower as a result of its ownership of a Senior Loan of such Borrower. Because of prohibitions on trading in securities of issuers while in possession of such information, the Senior Loan Trust might be unable to enter into a transaction in a security of such a Borrower when it would otherwise be advantageous to do so.

Non-U.S. Securities

The Senior Loan Trust may invest up to 10% of its assets in U.S. dollar-denominated non-U.S. securities. In no case will the Senior Loan Trust invest in debt securities of issuers located in emerging markets. Investments in non-U.S. securities may involve unique risks which differ from investments in securities of U.S. issuers. These risks are more pronounced to the extent that the Senior Loan Trust invests a significant portion of its foreign investment in one region. These risks may include:

- (i) less information about non-U.S. issuers or markets may be available due to less rigorous disclosure or accounting standards or regulatory practices;
- (ii) many non-U.S. markets are smaller, less liquid and more volatile. In a changing market, the Sub-Advisor may not be able to sell the Senior Loan Trust's assets at times, in amounts and at prices it considers desirable;
- (iii) an adverse effect of currency exchange rates or controls on the value of the Senior Loan Trust's assets;

- (iv) the economies of non-U.S. countries may grow at slower rates than expected or may experience a downturn or recession;
- (v) economic, political, and social developments may adversely affect the securities markets;
- (vi) withholding and other non-U.S. taxes may decrease the Senior Loan Trust's return;
- (vii) the risk of expropriation, armed conflict or confiscatory taxation; and
- (viii) potential difficulties in enforcing contractual obligations.

The value of non-U.S. investments is affected by changes in non-U.S. tax laws (including withholding tax), government policies and relations between nations, and trading, settlement, custodial, and other operational risks. In addition, the costs of investing abroad are generally higher than in Canada or the United States.

Portfolio Management Risk

The Sub-Advisor's judgment about the attractiveness, relative value or potential appreciation of a particular sector, security or investment strategy may prove to be incorrect.

Legal and Statutory Rights

The Advisor and Sub-Advisor were organized under the laws of Illinois and Delaware, respectively. The foreign organization and offices of the Advisor and Sub-Advisor and the fact that all or a substantial portion of their assets are situated outside of Canada may make it more difficult to enforce legal rights against the Advisor or the Sub-Advisor than if they were organized and resident in Canada. Although the Custodian of the assets of the Fund and the Senior Loan Trust is in Canada and the assets of the Fund and some of the assets of the Senior Loan Trust may be held in Canada, the majority of the Senior Loan Trust's assets may be held in accounts with sub-custodians in other jurisdictions. Accordingly, there may be additional defences available to any judgement obtained by the Fund in Canada that may affect enforcement in any such jurisdictions.

Strategic Transactions

The Fund and the Senior Loan Trust may use various investment management techniques that involve certain risks and special considerations, including engaging in hedging and risk management transactions, including options, forwards and other derivative transactions. These strategic transactions will be used to seek to manage the risks of the securities in the Senior Loan Portfolio, but may have the effect of limiting the gains from favourable market movements. Certain of these strategic transactions may provide investment leverage to the Senior Loan Portfolio and result in many of the same risks of leverage to Unitholders as discussed above under "Leverage Risk".

Counterparty Risks Associated with Securities Lending

The Fund may engage in securities lending as described under "The Investment Guidelines of the Fund - Securities Lending". Although the Fund will receive collateral for the loans and such collateral is marked to market, the Fund will be exposed to the risk of loss should a borrower default on its obligation to return the borrowed securities and the collateral is insufficient to reconstitute the portfolio of loaned securities.

Reinvestment Risk

Reinvestment risk is the risk that income from the Senior Loan Trust will decline if and when the Senior Loan Trust invests the proceeds from matured, traded, or called securities at market rates that are below the Senior Loan Portfolio's current earnings rate. A decline in income could affect the market price or the overall returns on the Units.

Regulatory Changes

To the extent that legislation or state or federal bank or other regulators impose additional requirements or restrictions on the ability of certain financial institutions to make loans, particularly in connection with highly leveraged transactions, the availability of Senior Loans and other related investments sought after by the Senior Loan Trust may be reduced. Further, such legislation or regulation could depress the market value of Senior Loans and other debt securities held by the Senior Loan Trust.

Market Event Risk

The terrorist attacks in the United States on September 11, 2001 had a disruptive effect on the securities markets in both Canada and the United States. United States military and related action in Iraq is ongoing and events in the Middle East could have significant adverse effects on the Canadian and U.S. economies and the stock markets. The Fund cannot predict the effects of similar events in the future on the Canadian and U.S. economies.

Nature of Units

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

Foreign Currency Exposure

NAV is measured in Canadian dollars and payments to Unitholders will be made in Canadian dollars. However, most of the Senior Loan Trust’s investments, at any time, will consist of Senior Loans denominated in U.S. dollars. Accordingly, the Fund’s ability to make payments to Unitholders may be affected by fluctuations in the value of the Canadian dollar relative to the United States dollar. Although it is expected that, initially, substantially all of the Senior Loan Trust’s U.S. currency exposure will be hedged to the Canadian dollar, there can be no assurance that such hedging strategies will be successful.

Status of the Fund

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

Liability of Unitholders

Unitholders do receive the protection of statutorily mandated limited liability in Ontario. Under the statute, the beneficiaries of a trust that is a reporting issuer under the *Securities Act* (Ontario) and that is governed by the laws of Ontario are not liable for any act, default, obligation or liability of the trust or any of its trustees. There is no guarantee however, that Unitholders could not be made party to legal action in connection with the Fund in other jurisdictions that do not recognize the limited liability. However, the Declaration of Trust provides that no Unitholder, in its capacity as such, will be subject to any personal liability whatsoever, in tort, contract or otherwise, to any person in connection with the Fund property or the obligations or the affairs of the Fund and all such persons shall look solely to the Fund property for satisfaction of claims of any nature arising out of or in connection therewith and the Fund’s property only shall be subject to levy or execution.

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

In any event, it is considered that the risk of any personal liability of Unitholders is minimal in view of the anticipated equity of the Fund, and the nature of its activities. In the event that a Unitholder should be required to satisfy any obligation of the Fund, such Unitholder will be entitled to reimbursement from any available assets of the Fund.

Concentration Risk

In the event that less than the maximum Offering is completed, the Common Share Portfolio and the Senior Loan Portfolio may be less diversified by issuer, industry and credit quality than if the maximum Offering had been completed. A decrease in diversification will expose the Fund to greater issuer and industry concentrations.

Tax Proposals Respecting Deductions

On October 31, 2003 the Canadian federal Department of Finance announced a Tax Proposal relating to the deductibility of losses under the Tax Act, applicable to taxation years beginning after 2004. Under this Tax Proposal, a taxpayer will be considered to have a loss from a business or property for a taxation year only if, in that year, it is reasonable to expect that the taxpayer will realize a cumulative profit from the business or property during the time that the taxpayer has carried on, or can reasonably be expected to carry on, the business or has held, or can reasonably be expected to hold, the property. Profit, for this purpose, does not include capital gains or capital losses. If this Tax Proposal were to apply to the Fund, deductions that would otherwise reduce the Fund's taxable income could be denied, with after-tax returns to Unitholders reduced as a result. On February 23, 2005, the Minister of Finance (Canada) announced that an alternative proposal to replace the Tax Proposal of October 31, 2003 would be released for comment at an early opportunity. It will be necessary for the Fund to monitor its activities having regard to the October 31, 2003 Tax Proposal and any alternative proposal.

Risk of the Potential Imposition of U.S. Tax

The Senior Loan Trust intends to invest in investments in U.S. issuers that qualify for the U.S. portfolio interest exception. If the Senior Loan Trust does not restrict itself to such investments that qualify for the U.S. portfolio interest exception, the Senior Loan Trust will be subject to U.S. withholding tax at a rate of 10%, assuming the Senior Loan Trust qualifies for benefits under the U.S. – Canada Income Tax Treaty, or 30% if it does not so qualify.

For U.S. tax purposes, forward contracts are normally treated as completed transactions on the closing of the transaction. However, if the Forward Agreement were viewed as transferring all of the benefits and burdens of ownership of the Senior Loan Trust to the Fund currently, the Unitholders of the Fund, rather than the unitholders of the Senior Loan Trust, would be the relevant group to poll to determine whether or not the investments of the Senior Loan Trust qualified for the portfolio interest exception. Because the Counterparty is not required to hold units in the Senior Loan Trust but instead is only required to pay notional amounts based upon the Senior Loan Trust, the Fund does not believe that the Forward Agreement is currently transferring all of the benefits and burdens of ownership of the Senior Loan Trust to the Fund. If it were determined that the Unitholders rather than the unitholders of the Senior Loan Trust were the relevant group for determining qualification for the portfolio interest exception, the Fund will not have collected the information necessary to support such qualification and may be subject to liabilities for U.S. taxes, interest and penalties.

The Counterparty is a bank. For U.S. tax purposes the portfolio interest exception does not apply to payments of interest received by a bank on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business. Thus, if the interest payments made on the Senior Loans were made directly to the Counterparty there would be an increased risk that the interest would not qualify for the portfolio interest exception. The Fund believes that, in the event the Counterparty becomes a unitholder of the Senior Loan Trust, the Senior Loan Trust will be viewed as an entity separate from the Counterparty and would not be classified as a bank for Canadian regulatory purposes. The Senior Loan Trust does not accept deposits, does not hold itself out as a bank, and would not be classified as a bank for U.S. regulatory purposes. Thus, the status of the Counterparty as a bank should not affect the treatment of the payments of interest on the Senior Loans as eligible for the portfolio interest exception. If the Counterparty becomes a unitholder of the Senior Loan Trust and if it were determined that

the Senior Loan Trust should not be treated as an entity separate from the Counterparty or that the Senior Loan Trust was a bank for U.S. tax purposes, there would be increased risk that the interest on the Senior Loans would not qualify for the portfolio interest exception.

Also, the Senior Loan Trust intends not to engage in a U.S. trade or business. If the Senior Loan Trust were to engage in a U.S. trade or business through a U.S. permanent establishment, the Senior Loan Trust would be subject to U.S. corporate tax on its net income and U.S. branch profits tax.

MATERIAL CONTRACTS

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

- (i) the Declaration of Trust made by the Manager referred to under "Declaration of Trust" and "Trustee";
- (ii) the Agency Agreement referred to under "Plan of Distribution";
- (iii) the Investment Advisory Agreement between the Advisor, the Manager and the Fund referred to under "Advisor";
- (iv) the Custodial Services Agreement referred to under "Auditors, Valuation Agent, Registrar and Custodian";
- (v) the Fund Administration Services Agreement referred to under "Valuation";
- (vi) the registrar, transfer agency and distribution agency agreement between the Manager, as trustee of the Fund, and the Transfer Agent referred to under, "Auditors, Valuation Agent, Transfer Agent, Registrar and Custodian"; and
- (vii) the Forward Agreement referred to under "Investment Guidelines of the Fund - Forward Agreement".

Copies of the contracts referred to above may be inspected during normal business hours at the offices of the Manager at 330 Bay Street, Suite 1300, Toronto, Ontario M5H 2S8 during the period of distribution to the public of the Units offered under the Offering. Copies of the Declaration of Trust may be obtained at any time from the Manager on written request.

PROMOTERS

First Defined Portfolio Management Co. and the Manager have taken the initiative in organizing the Fund and accordingly may each be considered to be a "promoter" of the Fund within the meaning of applicable Canadian securities legislation. The Manager will receive fees from the Fund and the Senior Loan Trust and will be entitled to reimbursement of expenses incurred in relation to the Fund and Senior Loan Trust as described under "Fees and Expenses".

LEGAL MATTERS

The matters referred to under "Eligibility for Investment" and "Canadian Federal Income Tax Considerations" and certain other legal matters in connection with the Offering will be passed upon by Fasken Martineau DuMoulin LLP and, with respect to U.S. tax matters, Chapman and Cutler LLP, on behalf of the Fund, and by Davies Ward Phillips & Vineberg LLP, Toronto and New York, on behalf of the Agents.

AUDITORS, VALUATION AGENT, TRANSFER AGENT, REGISTRAR AND CUSTODIAN

The Auditors of the Fund are Deloitte & Touche LLP, Chartered Accountants, Suite 1400, BCE Place, 181 Bay Street, Toronto, Ontario M5J 2V1

The Transfer Agent will act as transfer agent, registrar and distribution agent for the Units at its principal office in Toronto pursuant to an agreement between the Manager, as trustee of the Fund, and the Transfer Agent to be entered into on or prior to the Closing of the Offering.

The Custodian will serve as custodian of the Fund and the Senior Loan Trust pursuant to agreements to be entered into on or prior to the Closing of the Offering.

The Valuation Agent will act as valuation agent and will perform certain valuation services for the Fund pursuant to a fund administration services agreement to be entered into on or prior to the Closing of the Offering.

PURCHASERS' STATUTORY RIGHTS

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

AUDITORS' CONSENT

We have read the prospectus of First Trust/Highland Capital Floating Rate Income Fund II (the "Fund") dated May 16, 2005 relating to the issue and sale of units of the Fund. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above mentioned prospectus of our report to the Trustee of the Fund on the statement of financial position of the Fund as at May 16, 2005. Our report is dated May 16, 2005.

Toronto, Canada
May 16, 2005

(Signed) Deloitte & Touche LLP
Chartered Accountants

AUDITORS' REPORT

To the Trustee of

First Trust/Highland Capital Floating Rate Income Fund II:

We have audited the statement of financial position of First Trust/Highland Capital Floating Rate Income Fund II (the "Fund") as at May 16, 2005. This statement of financial position is the responsibility of the Manager of the Fund. Our responsibility is to express an opinion on this financial statement based on our audit.

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

In our opinion, this statement of financial position presents fairly, in all material respects, the financial position of the Fund as at May 16, 2005 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
May 16, 2005

(Signed) Deloitte & Touche LLP
Chartered Accountants

FIRST TRUST/HIGHLAND CAPITAL FLOATING RATE INCOME FUND II

STATEMENT OF FINANCIAL POSITION

As at May 16, 2005

Assets

Cash \$10

Unitholders' Equity

Unitholders' Equity (Note 1) \$10

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

Approved on behalf of First Trust/Highland Capital Floating Rate Income Fund II

By FT (NSI) Floating Rate Management Co.

(Signed) MARK BRADLEY
Director

(Signed) RONALD MCALISTER
Director

FIRST TRUST/HIGHLAND CAPITAL FLOATING RATE INCOME FUND II
NOTES TO STATEMENT OF FINANCIAL POSITION
May 16, 2005

1. FORMATION OF THE FUND

First Trust/Highland Capital Floating Rate Income Fund II (the “Fund”) was established under the laws of the Province of Ontario by a declaration of trust made as of May 16, 2005. The trustee of the Fund is FT (NSI) Floating Rate Management Co. (in such capacity, the “Manager”) and the Fund’s advisor is First Trust Advisors L.P. (the “Advisor”). The Fund is authorized to issue an unlimited number of units. On May 16, 2005, the Fund issued one unit for \$10.00 cash.

The Fund’s investment objectives are to:

- (i) provide holders of Units (“Unitholders”) with tax efficient monthly distributions which will fluctuate with changes in U.S. short-term interest rates and will consist primarily of capital gains and returns of capital; and
- (ii) preserve and enhance the net asset value (“NAV”) per Unit in order to return the original subscription price of the Units (\$10.00 per Unit) to Unitholders on or about May 31, 2015.

The Fund has been established to provide Unitholders with exposure to a portfolio consisting primarily of senior secured floating rate corporate loans issued by debtors that are primarily U.S. issuers held by First Trust/Highland Capital Senior Loan Trust (the “Senior Loan Trust”). The Fund will invest the net proceeds of the offering in a portfolio of common shares of Canadian public companies (the “Common Share Portfolio”). The Fund intends to obtain exposure to the senior loan portfolio by virtue of one or more forward transactions (collectively, the “Forward Agreement”) with The Bank of Nova Scotia.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements. The financial statements are prepared in accordance with Canadian generally accepted accounting principles. Management is required to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements.

(i) Common Share Portfolio Valuation

The Fund’s investment in common shares is presented at market value as determined at the closing sale price on the Toronto Stock Exchange (the “TSX”). If no sale has taken place that day, valuation will be at the average of the bid and ask price.

(ii) Securities Transactions and Investment Income

Securities transactions are recorded as of the trade date. Realized gains and losses from securities transactions are recorded on an average cost basis. Interest Income is recognized on an accrual basis.

(iii) Forward Agreement

The value of the Forward Agreement shall be the gain or loss with respect thereto that would be realized, as of any date, if the positions in the Forward Agreement were to be closed out in accordance with its terms, in which case fair value shall be based on the current market value of the underlying securities using the closing sale prices on the TSX. If no sale has taken place that day, valuation will be at the average of the bid and ask price. The value takes into account amounts equal to other assets including cash, prepaids and distributions declared less the liabilities attributed to the Forward Agreement on such date.

The unrealized appreciation on the Forward Agreement (which is the difference between the net asset value of the Senior Loan Trust and the cost of the Common Share Portfolio), realized gains on partial settlement of the Forward Agreement and the Forward Agreement fees will be included in the net gain on Forward Agreement in the Statement of Investment Operations.

(iv) Offering costs

Offering costs will be charged against unitholders' equity in proportion to the number of Units sold during the offering period.

3. MANAGEMENT FEES AND OTHER EXPENSES

The Manager, as the manager of the Fund, is responsible for managing the business and day-to-day operations of the Fund, and is entitled to a management fee at an annual rate of 0.75% of Managed Assets calculated monthly in arrears plus applicable taxes. The management fee will be paid in cash, although the Fund has granted to the Manager the option, exercisable each month in the Manager's sole discretion to have up to 100% of the management fee paid in Units.

Managed Assets means, in respect of any particular month, the average daily gross asset value of the Senior Loan Trust during such month (including assets attributable to the principal amount of borrowings) minus the sum of the Senior Loan Trust's accrued liabilities as at the end of such month (other than the principal amount of any borrowings incurred).

The Manager, in its capacity as manager of the Fund, is responsible for payment of fees to the Advisor.

The Fund will pay for all on-going expenses incurred in connection with its operation and administration, estimated to be approximately \$300,000 per annum. The Fund will also be responsible for taxes, interest expense and the costs of portfolio transactions, as well as any extraordinary expenses which may be incurred from time to time.

The Fund will pay a service fee to each registered dealer whose clients hold Units. The service fee will be calculated and paid at the end of each calendar quarter and will be equal to 0.40% annually of the NAV of the Units held by clients of the registered dealer.

4. AGENCY AGREEMENT

The Fund, the Advisor, the Sub-Advisor, First Defined Portfolio Management Co. and the Manager have entered into an agency agreement with CIBC World Markets Inc., RBC Dominion Securities Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc., TD Securities Inc., HSBC Securities (Canada) Inc., Raymond James Ltd., Richardson Partners Financial Limited, Canaccord Capital Corporation, Desjardins Securities Inc., Dundee Securities Corporation, First Associates Investments Inc. and Wellington West Capital Inc. (collectively, the "Agents") dated as of May 16, 2005 pursuant to which the Fund has agreed to create, issue and sell, and the Agents have agreed to offer for sale to the public, a minimum of 5000,000 Units at \$10.00 per Unit. In consideration for their services in connection with this offering, the Agents will be paid a fee of \$0.50 per Unit out of the proceeds of the offering.

5. RELATED PARTY TRANSACTIONS

Scotia Capital Inc., one of the Agents, is an affiliate of The Bank of Nova Scotia, the chartered bank which has entered into the Forward Agreement with the Fund and which will be providing liquidity support to the conduit lender under the secured credit facility of the Senior Loan Trust. Scotia Capital Inc. also acts as administrator and agent for the initial conduit lender. Scotiabank (Ireland) Limited, an affiliate of The Bank of Nova Scotia, will facilitate the warehousing program of the Senior Loan Trust.

CERTIFICATE OF THE FUND, THE MANAGER AND THE PROMOTERS

Dated: May 16, 2005

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

FT (NSI) Floating Rate Management Co.
(as Manager and Promoter and, on behalf of the Fund)

By: (Signed) Ronald McAlister
Chief Executive Officer

By: (Signed) Mark Bradley
Chief Financial Officer

On behalf of the board of directors of FT (NSI) Floating Rate Management Co.

By: (Signed) Robert Bredemeier
Director

By: (Signed) John Szucs
Director

FIRST DEFINED PORTFOLIO MANAGEMENT CO.
(as Promoter)

By: (Signed) Robert Bredemeier
Chief Executive Officer

CERTIFICATE OF THE AGENTS

Dated: May 16, 2005

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

CIBC WORLD MARKETS INC.

**RBC DOMINION SECURITIES
INC.**

SCOTIA CAPITAL INC.

By: (Signed) RONALD W.A.
MITCHELL

By: (Signed) CAMERON B.
GOODNOUGH

By: (Signed) BRIAN D. MCCHESEY

BMO NESBITT BURNS INC.

TD SECURITIES INC.

By: (Signed) DAVID R. THOMAS

By: (Signed) J. DAVID BEATTIE

**HSBC SECURITIES (CANADA)
INC.**

RAYMOND JAMES LTD.

**RICHARDSON PARTNERS
FINANCIAL LIMITED**

By: (Signed) CATHERINE J. CODE

By: (Signed) SARA MINATEL

By: (Signed) CLANCY ETHANS

**CANACCORD
CAPITAL
CORPORATION**

**DESJARDINS
SECURITIES INC.**

**DUNDEE
SECURITIES
CORPORATION**

**FIRST
ASSOCIATES
INVESTMENTS
INC.**

**WELLINGTON
WEST CAPITAL
INC.**

By: (Signed) CRAIG
WARREN

By: (Signed) BETH
A. SHAW

By: (Signed)
DAVID P. STYLES

By: (Signed)
PATRICK LEUNG

By: (Signed)
BRENT
BOTTOMLEY