



# **CANADIAN BANC RECOVERY CORP.**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**AND**

**MANAGEMENT INFORMATION CIRCULAR**

**Special Meeting to be held at 10:00 a.m.**

**Thursday, November 3, 2011**

**At the offices of Blake, Cassels & Graydon LLP**

**199 Bay Street**

**40th Floor**

**Commerce Court West**

**Toronto, Ontario**

## NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

**NOTICE IS HEREBY GIVEN THAT** a special meeting of the holders (the “Shareholders”) of Preferred Shares and Class A Shares (collectively, the “Shares”) of Canadian Banc Recovery Corp. (the “Company”) will be held at the offices of Blake, Cassels & Graydon LLP, 199 Bay Street, 40th Floor, Toronto, Ontario, on Thursday, November 3, 2011 at 10:00 a.m. (local time in Toronto, Ontario) for the following purposes:

- (a) to consider and, if thought advisable, to approve a special resolution authorizing the board of directors of the Company (the “Board of Directors”) to amend the articles of the Company to:
  - (i) extend the termination date of the Company from December 1, 2012 to, initially, December 1, 2018 and to provide holders of the Preferred Shares and the Class A Shares of the Company with the “2011 Special Retraction Right” in connection with such extension as described in the Management Information Circular dated September 27, 2011;
  - (ii) provide the Company with a special redemption right in respect of the Preferred Shares or Class A Shares in connection with the implementation of the 2011 Special Retraction Right, if necessary or desirable so as to ensure that after such implementation an equal number of Preferred Shares and Class A Shares remain outstanding;
  - (iii) permit the Company to be terminated prior to any scheduled termination date if the Preferred Shares or the Class A Shares are delisted on the Toronto Stock Exchange or if the net asset value of the Company declines to less than \$5,000,000;
  - (iv) provide for an additional extension of the term of the Company for a five year period beginning on December 1, 2018 if the Board of Directors so determines, and for further extensions for additional terms of five years each thereafter, and to provide holders of the Preferred Shares and the Class A Shares with a “Continuing Special Retraction Right” in connection with each such extension as described in the Management Information Circular dated September 27, 2011;
  - (v) provide for a special redemption of the Preferred Shares or Class A Shares in connection with any implementation of a Continuing Special Retraction Right if necessary or desirable to ensure that after any such implementation an equal number of Preferred Shares and Class A Shares remain outstanding; and
  - (vi) amend the dividend entitlement of the Preferred Shares, effective December 1, 2018, if the term of the Company is then extended, so as to provide the Company with the right to establish the rate of cumulative preferential monthly dividends to be paid on the Preferred Shares for the five year renewal period commencing December 1, 2018, and in respect of any subsequent five year renewal term;

- (b) to consider and, if thought advisable, to approve a special resolution authorizing the Board of Directors to further amend the articles of the Company to provide for a subdivision or consolidation of the Preferred Shares or the Class A Shares to the extent that the Board of Directors in its discretion considers such subdivision or consolidation necessary or advisable in connection with the implementation of the 2011 Special Retraction Right, so as to ensure that after such implementation an equal number of Preferred Shares and Class A Shares remain outstanding; and
- (c) to transact such further and other business as may properly come before the special meeting or any adjournment or adjournments thereof (the “Meeting”).

Holders of Preferred Shares and Class A Shares of the Company will be entitled to vote separately as a class on the special resolution to extend the termination date of the Company and provide a special retraction right to Shareholders as a consequence of such extension.

The specific details of the foregoing matters to be put before the Meeting, and the text of the special resolution in substantially the form in which it will be put to Shareholders at the Meeting, are set forth in the Management Information Circular accompanying this Notice of Special Meeting of Shareholders.

In conjunction with these changes, if approved, the name of the Company will be changed to “Canadian Banc Corp.”.

**All Shareholders are invited to attend the Meeting but beneficial Shareholders will not be recognized at the Meeting for purposes of voting their Shares in person or by way of proxy unless they comply with certain procedures. If you are a beneficial Shareholder and wish to vote in person at the Meeting, please contact your broker or agent well in advance of the Meeting to determine how you can do so. Shareholders that are unable to attend have the right to appoint a person other than the person specified in the form of proxy to attend and act on such Shareholder’s behalf at the Meeting.** Such right may be exercised by inserting the name of the person to be appointed in the space provided, or by completing another proper form of proxy. A person appointed as a proxyholder need not be a Shareholder of the Company.

The Preferred Shares and the Class A Shares of the Company were deposited in “book entry only” form; therefore CDS & Co., the nominee of CDS Clearing and Depository Services Inc., is the only registered holder of the Preferred Shares and the Class A Shares. Accordingly, all non-registered Shareholders who receive these materials through their broker or other intermediary and wish to vote on the special resolution must complete and send the form of proxy in accordance with the instructions provided by their broker or other intermediary.

To be effective, a proxy must be received by the Proxy Department of Computershare Investor Services Inc. or by the Chairman of the Meeting not later than November 1, 2011 at 10:00 a.m. (local time in Toronto, Ontario), or in the case of any adjournment of the Meeting, not less than 48 hours (Saturdays, Sundays and holidays excepted) prior to the time of the adjournment.

DATED at Toronto, Ontario this 27<sup>th</sup> day of September, 2011.

By Order of the Board of Directors  
of Canadian Banc Recovery Corp.

A handwritten signature in dark ink, appearing to read 'Wayne Finch', with a stylized flourish at the end.

WAYNE FINCH  
President and Chief Executive Officer

**CANADIAN BANC RECOVERY CORP.**  
**MANAGEMENT INFORMATION CIRCULAR FOR THE**  
**SPECIAL MEETING OF SHAREHOLDERS**  
**TO BE HELD ON NOVEMBER 3, 2011**

This management information circular (the “Circular”) is furnished in connection with the solicitation by the directors (the “Board of Directors”) of Canadian Banc Recovery Corp. (the “Company”) and by its investment fund manager, Quadravest Capital Management Inc. (the “Manager”), of proxies to be used at the special meeting of the holders (the “Shareholders”) of Preferred Shares and Class A Shares (collectively, the “Shares”) of the Company to be held on Thursday, November 3, 2011, or at any adjournment of such special meeting (the “Meeting”).

Shareholders are being asked at the Meeting to consider and, if thought advisable, to approve a special resolution authorizing the Board of Directors to amend the articles of incorporation of the Company, as amended (the “Articles”) to (i) extend the term of the Company initially to December 1, 2018 while providing Shareholders with retraction rights which will effectively provide them with the same rights on such extension that they would have had if the scheduled termination date of the Company were not to be so extended, (ii) provide the Company with the means to ensure that, following any exercise of such special retraction right, the number of outstanding Preferred Shares and the number of outstanding Class A Shares is the same, (iii) from and after December 1, 2018, provide the Board of Directors with the right to extend the term of the Company for further terms of five years each, while also providing Shareholders with retraction rights which will effectively provide them with the same rights on any such extension that they would have had if the term of the Company were not to be so extended, (iv) provide the Company with the means to ensure that, following any exercise of such retraction right, the number of outstanding Preferred Shares and the number of outstanding Class A Shares is the same, (v) from and after December 1, 2018, provide the Company with the right to set the rate at which dividends or other distributions will be paid on the Preferred Shares for the ensuing five year renewal term, and (vi) permit the Company to be terminated prior to any scheduled termination date if the Preferred Shares or the Class A Shares are delisted or if the net asset value of the Company declines to less than \$5 million.

**VOTING RIGHTS, RECORD DATE, QUORUM AND PROXY INFORMATION**

To be used at the Meeting, a proxy must be deposited with Computershare Investor Services Inc. at 100 University Avenue, Toronto, Ontario M5J 2Y1 (or, if by facsimile, sent to: 416-263-9524 or 1-866-249-7775) or with the Chairman of the Meeting at any time up to 10:00 a.m. (local time in Toronto, Ontario) on November 1, 2011 or, in the case of any adjournment of the Meeting, not less than 48 hours (Saturdays, Sundays and holidays excepted) prior to the time of the adjournment.

Only holders of record of Preferred Shares or Class A Shares at the close of business on September 29, 2011 will be entitled to vote their Shares in respect of the matters to be voted on at the Meeting. With respect to each matter properly brought before the Meeting, a Shareholder shall be entitled to one vote for each Share registered in the name of such Shareholder. Holders of Preferred Shares and Class A Shares of the Company will be entitled to vote separately as a class on the special resolution to extend the term of the Company and, to be effective, such

special resolution must be approved by not less than 66 2/3% of the votes cast by the holders of each such class, respectively, at the Meeting.

Pursuant to the Articles, a quorum at the Meeting will consist of two or more Shareholders present in person or represented by proxy holding not less than 10% of the outstanding Class A Shares or Preferred Shares, as applicable, of the Company. If the quorum requirement is not satisfied within one-half hour of the scheduled time for the Meeting, then the Meeting will be adjourned by the Chairman of the Meeting to 10:00 a.m. on November 10, 2011. At such adjourned Meeting, the Shareholders then present in person or represented by proxy will form a quorum.

### **Appointment of Proxy Holders**

Shareholders who are unable to be present at the Meeting may still vote through the use of proxies. If you are a Shareholder, you should complete, execute and return the enclosed proxy form. By completing and returning the enclosed proxy form, you can participate in the Meeting through the person or persons named on the form.

### **Discretionary Authority of Proxies**

The proxy form confers discretionary authority upon the management appointees named therein with respect to such matters, including without limitation such amendment or variation to the special resolution, as, though not specifically set forth in the Notice of Special Meeting of Shareholders, may properly come before the Meeting. The Company does not know of any such matter which may be presented for consideration at the Meeting. However, if any such matter is presented, the proxy will be voted thereon in accordance with the best judgment of the management appointees named in the proxy form.

**On any ballot that may be called for at the Meeting, all Shares in respect of which the management appointees named in the accompanying proxy form have been appointed to act will be voted in accordance with the specification of the Shareholder signing the proxy form. If no such specification is made, then the Shares will be voted in favour of the matters identified in the Notice of Special Meeting of Shareholders.**

### **Alternate Proxy**

**A Shareholder has the right to appoint a person other than the management appointees designated on the accompanying proxy form by crossing out the printed names and inserting the name of the person he or she wishes to act as proxy in the blank space provided, or by completing another proxy form. Proxy forms which appoint persons other than the management appointees whose names are printed on the form should be submitted to the Company and the person so appointed should be notified. A person acting as proxy need not be a Shareholder.**

On any ballot that may be called for at the Meeting, all Shares in respect of which the person named in a proxy form has been appointed to act shall be voted in accordance with the specification of the Shareholder signing such proxy form. If no such specification is made, then the Shares may be voted in accordance with the best judgment of the person named in the proxy form. Furthermore, the person named in the proxy form will have discretionary authority with respect to any other matters that may properly come before the Meeting, and will be voted on

such amendments and other matters in accordance with the best judgment of the person named in such proxy form.

### **Revocation of Proxies**

A Shareholder who has given a proxy may revoke it by depositing an instrument in writing signed by the Shareholder or by the Shareholder's attorney, who is authorized in writing, or by transmitting, by telephonic or electronic means, a revocation signed by electronic signature by the Shareholder or by the Shareholder's attorney, who is authorized in writing, to or at the registered office of the Company at any time up to and including the last business day preceding the day of the Meeting, or in the case of any adjournment of the Meeting, the last business day preceding the day of the adjournment, or with the Chairman of the Meeting on the day of, and prior to the start of, the Meeting or any adjournment thereof. A Shareholder may also revoke a proxy in any other manner permitted by law.

### **Solicitation of Proxies and Meeting Costs**

The costs of sending the Notice of Special Meeting of Shareholders and soliciting proxies for the Meeting, as well as the other costs of the Meeting, will be paid for by the Company. Solicitation of proxies will be by mail and may be supplemented by telephone or other personal contact by officers or employees of the Manager. The Company will, as required by law, also reimburse brokers, custodians, nominees and fiduciaries for their proper charges and expenses incurred in forwarding this Circular and related materials to beneficial owners of Shares.

The Company will also pay a dealer whose clients hold Shares of the Company a fee of \$0.05 in respect of each Preferred Share and \$0.10 in respect of each Class A Share voted by the client of such dealer in favour of the matters set forth in the Notice of Special Meeting of Shareholders, provided that such client does not retract the Shares so voted pursuant to the Special Retraction Right (as defined below).

### **Advice to Beneficial Holders**

The information set forth in this section is of significant importance to beneficial holders of Preferred Shares and Class A Shares, as the Shares are held in the name of CDS & Co., the nominee of CDS Clearing and Depository Services Inc. ("CDS"), and not in the name of the beneficial holders of the Shares. The Company utilizes the "book entry only" system of registration and thus Shareholders do not hold their Shares in their own name (such Shareholders being "Beneficial Shareholders"). Beneficial Shareholders should note that only proxies deposited by Shareholders whose names appear on the records of the Company as the registered holders of Shares can be recognized and acted upon at the Meeting. Shares held by brokers or their nominees through CDS & Co. can only be voted upon the instructions of the Beneficial Shareholder. Without specific instructions, CDS & Co. and brokers/nominees are prohibited from voting Shares for their client(s). The Company does not know for whose benefit the Shares registered in the name of CDS & Co. are held. Therefore, Beneficial Shareholders cannot be recognized at the Meeting for purposes of voting their Shares in person or by way of proxy unless they comply with the procedure designated below.

Applicable securities laws or policies require intermediaries/brokers to seek voting instructions from Beneficial Shareholders in advance of shareholders' meetings. Every intermediary/broker has its own mailing procedures and provides its own return instructions,

which should be carefully followed by Beneficial Shareholders in order to ensure that their Shares are voted at the Meeting. Often, the form of proxy supplied to a Beneficial Shareholder by its broker is identical to that provided to registered Shareholders. However, its purpose is limited to instructing the registered Shareholder how to vote on behalf of the Beneficial Shareholders. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. (“Broadridge”). Broadridge typically prepares a voting instruction form which it mails to the Beneficial Shareholders and asks Beneficial Shareholders to complete and return directly to Broadridge. Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of Shares to be represented at the Meeting. **A Beneficial Shareholder receiving a voting instruction form cannot use that form to vote Shares directly at the Meeting; the voting instruction form must be returned to Broadridge well in advance of the Meeting in order to have the Shares voted.**

**If you are a Beneficial Shareholder and wish to vote in person at the Meeting, please contact your broker or agent well in advance of the Meeting to determine how you can do so.**

## **DESCRIPTION OF THE COMPANY**

### **Incorporation and Initial Public Offering**

The Company is a mutual fund corporation incorporated under the laws of the Province of Ontario by articles of incorporation dated May 25, 2005, as amended June 28, 2005 and April 23, 2009. The Company was initially incorporated under the name “Prime Rate Plus Corp.” and adopted its current name on April 23, 2009. The Manager is the manager and portfolio adviser of the Company. The principal office address of the Company is 77 King Street West, Suite 4500, Toronto, Ontario M5K 1K7.

On July 15, 2005 and July 29, 2005, the Company completed its initial public offering of 11,525,000 Preferred Shares and 11,525,000 Class A Shares pursuant to a prospectus dated June 28, 2005. The Preferred Shares and the Class A Shares are issued only on the basis that an equal number of Preferred Shares and Class A Shares (together, a “Unit”) will be issued and outstanding at all times. The Preferred Shares and the Class A Shares are listed on the Toronto Stock Exchange (“TSX”) under the symbols BK.PR.A. and BK, respectively. Prior to May 7, 2009, these shares traded under the symbols PPL.PR.A and PPL, respectively.

### **Investment Purpose and Objectives**

The Company was created to provide investors with an opportunity to invest in the Canadian banking sector, which is a sector the Manager believes offers an attractive dividend yield, has shown solid earnings growth and has a strong history of capital appreciation. The Preferred Shares and the Class A Shares which the Company has issued to the public are each floating rate securities. The distribution amounts payable on these securities vary with the prevailing prime rate in Canada. Holders of Preferred Shares will benefit from increased distributions through a period of rising interest rates. Holders of Class A Shares may also receive increased distributions through a period of rising interest rates; however, the total return of a holder of Class A Shares will depend on the performance of the securities held by the Company.

The Company's investment objectives are (i) to provide holders of Preferred Shares with cumulative preferential floating rate monthly cash dividends at a rate per annum equal to the prime rate plus 0.75%, with a minimum annual rate of 5.0% and a maximum annual rate of 7.0%.; (ii) to provide holders of Class A Shares with regular floating rate monthly cash distributions targeted to be at a rate per annum equal to the prime rate plus 2.0%, with a minimum targeted annual rate of 5.0% and a maximum annual rate of 10.0%; and (iii) to return the original issue price of \$10.00 and \$15.00 to holders of Preferred Shares and Class A Shares, respectively, at the time of the redemption of such shares on December 1, 2012 or such other date as the Company may terminate.

The assets of the Company are invested in an actively managed portfolio of common shares (the "Portfolio") which primarily includes shares of the following publicly traded Canadian banks (the "Portfolio Companies"), each of whose shares will generally represent no less than 5% and no more than 20% of the net asset value of the Company:

Bank of Montreal	National Bank of Canada
The Bank of Nova Scotia	Royal Bank of Canada
Canadian Imperial Bank of Commerce	The Toronto-Dominion Bank

Up to 20% of the net asset value of the Company may be invested in equity securities of Canadian or foreign financial services corporations, other than the Portfolio Companies. Additional information regarding the investment strategies and restrictions of the Company is available in the current Annual Information Form of the Company dated February 23, 2011, incorporated by reference herein (the "Current Annual Information Form").

## **Share Capital**

The Company is authorized to issue an unlimited number of Preferred Shares and Class A Shares and 1,000 Class B Shares, of which as at the date of this Circular there are issued and outstanding 1,000 Class B Shares, 7,487,682 Preferred Shares and 7,487,682 Class A Shares.

## **Net Assets**

The net assets of the Company as at September 15, 2011 were approximately \$156.6 million and the net asset value per Unit was \$20.92.

## **Dividends**

The Company pays a cumulative preferential floating rate monthly dividend on the Preferred Shares at an annual rate equivalent to interest at the prevailing prime rate from time to time plus 0.75%. Regardless of the prime rate, however, the minimum rate per annum at which dividends are paid on the Preferred Shares is 5.0% and the maximum rate is 7.0% .

The Class A Share conditions provide that the Company may pay dividends on the Class A Shares in such amounts as are determined by the Board of Directors in their discretion. The current policy of the Board of Directors of the Company is to pay floating rate monthly non-cumulative distributions to the holders of Class A Shares targeted to be at an annual rate equal to the prevailing prime rate plus 2.0% per annum. Regardless of the prime rate, however, the current policy of the Board of Directors is that the minimum rate per annum at which distributions are targeted to be paid on the Class A Shares is 5.0% and the maximum rate is

10.0%. In addition, if any amounts remain available for the payment of dividends, a special year-end dividend of such amount will be payable to Class A Shareholders of record on the last day of November in each year.

## **Management**

For a description of the Manager, see the Current Annual Information Form. For the period from December 1, 2010 to August 31, 2011, the Manager received fees of \$1,184,901 from the Company.

## **MATTERS TO BE VOTED ON AT THE MEETING – CHANGES TO TAKE EFFECT IMMEDIATELY**

The Articles of the Company currently provide that the Preferred Shares and the Class A Shares shall be redeemed by the Company on its termination date of December 1, 2012. Shareholders are being asked to pass a special resolution in the form attached hereto as Appendix “A” which would, among other things, extend such termination date of the Company initially to December 1, 2018. The reasons for the term extension proposal are as follows:

- *Investors will have the opportunity to continue to participate in an investment fund with attractive floating rate monthly distributions that has exhibited solid investment performance through difficult markets.*

### Distributions:

Total distributions paid since inception amount to \$5.62 per Class A Share (inclusive of the dividend payable on October 9, 2011 in respect of the month ending September 30, 2011). Class A Shareholders received regular monthly dividends in all but four months since the initial dividend was paid by the Company on August 31, 2005. Preferred Shareholders have received regular monthly dividends each month from and including August 31, 2005, for a total of \$3.52 per Preferred Share (also inclusive of the dividend payable on October 9, 2011).

The current yield on both the Class A Shares and Preferred Shares remain attractive in the current market environment. The current yield of a Class A Share is 8.2%, based on the closing price of such a Share on the TSX on September 26, 2011 and its most recent monthly dividend, annualized. In order to generate an equivalent after tax return, investors would require a pre-tax interest return of approximately 11.7% (Ontario residents). The current yield of a Preferred Share, based on the closing price of such a Share on the TSX on September 26, 2011 and its most recent monthly dividend, annualized, is 4.95%. In order to generate an equivalent after tax return, investors would require a pre-tax interest return of approximately 7.1% (Ontario residents). The tax advantage of the distributions, which have been in the form of eligible Canadian dividends in the case of the Preferred Shares and a mix of eligible Canadian dividends and capital gains in the case of the Class A Shares, enhances the return significantly over other investment products that pay interest income.

### Investment performance:

The annual compound returns of (i) a Unit, (ii) a Class A Share, and (iii) a Preferred Share for the one, three and five year periods to November 30, 2010 (the Company’s most recently completed financial year) and since the inception of the Company are shown below:

	<b>One year</b>	<b>Three years</b>	<b>Five Years</b>	<b>Since inception</b>
Unit	9.71%	1.84%	4.54%	5.41%
Class A Share	13.81%	(0.59)%	3.53%	5.03%
Preferred Share	5.12%	5.39%	5.97%	5.92%

*The indicated returns are the historical changes in net asset value per Unit, per Class A Share and per Preferred Share and assume that cash distributions have been reinvested. Inception date was July 15, 2005, the date the Company commenced investment operations.*

- ***Extending the life of the Company would allow Shareholders to participate in any continued strengthening in the Canadian chartered banks***

The Canadian banks have on a relative basis performed much better than almost all other banking sectors across the world over the difficult period of the last several years. The Canadian banks have maintained their dividends through this downturn, which has reinforced their value as stable dividend generating companies. For the fourth year in a row, Canadian banks were ranked #1 globally in the “Soundness of Banks” category by the World Economic Forum, thus creating international recognition and attention to these companies and the underlying regulatory model which they operate.

The dividend yield on the Portfolio at August 31, 2011 remains at one of the highest historic levels relative to yields of 10 year Canadian bonds. The average dividend yield of the six Canadian banks held in the Portfolio was 4.06% at August 31, 2011 versus a yield of 2.49% on 10 year Canadian bonds. This differential spread is at one of the most attractive levels over the last 30 years and should continue to be very supportive of Canadian bank market valuations. In addition, the average price/ trailing earnings (PE) multiple of Canadian banks at 11.4, 2011 suggest that Canadian banks remain attractively priced. The dividends generated in the Portfolio continue to be supplemented by a selective covered call writing program which provides further income to the Portfolio.

- ***Shareholders could benefit from rising interest rates through the floating rate distribution formula***

The floating dividend rates on both the Preferred Shares and Class A Shares are based on a floating rate formula based on movements in the Canadian prime rate (as outlined in the “Description of the Company – Investment Purpose and Objectives” section on C-4). As at August 31, 2011, the current Canadian prime rate is near historic lows at 3.0%. As a result, dividend rates under the formula are at their minimum levels for both classes of shares. If the extension proposal is approved, both classes of shareholders may receive higher floating dividend rates should the Canadian prime rate increase sufficiently over the next seven years.

- ***Long term investors may benefit from an expanded time horizon***

The proposal to extend the termination date to at least December 1, 2018 will facilitate greater investment flexibility for both existing Shareholders and potential new investors. Since the primary focus of this product is to generate regular floating rate monthly distributions for

income oriented individuals, an extended time horizon for the Company would allow current investors to continue to receive their current monthly distributions beyond December 1, 2012 as well as have an opportunity to have greater flexibility over the timing of any potential exit from their investment. Shareholders will continue to be able to have the opportunity to sell their investment in the market as well as have their regular monthly and annual retraction opportunities. Shareholders who do not wish to continue investing in the Company would be given the Special Retraction Right, as discussed below, that would allow them to retract their investment in the Company on terms similar to those that would apply on the termination of the Company. A longer term horizon should also make the Company more attractive to potential investors as they would have reduced market timing risk with a fund that has a time horizon of nearly seven years as opposed to the current 14 months remaining. This could have a favorable impact on the trading price of one or both classes of Shares.

- ***A longer investment horizon allows the Manager to remain focused on its investment strategy without prematurely beginning the process of winding down investments.***

In the absence of the extension proposal, the Manager would have to begin winding down the investments in the Company in 2012. In particular, the income enhancement strategy (covered call writing strategy) employed by the Company would be adversely impacted in the final months before wind-up. This could result in the Company generating less income in the final months due to decreased market exposure.

Accordingly, Shareholders are being asked to extend the termination date of the Company initially by six years (from the current termination date) to December 1, 2018. If the special resolution is approved, the Preferred Shares and the Class A Shares will continue to be listed and trade on the TSX and holders will also continue to have their normal monthly and annual retraction rights, as described in the Annual Information Form of the Company, until the final redemption of all the Shares. In addition, if the special resolution is approved, shareholders will have the retraction right discussed below.

### **2011 Special Retraction Right**

If the extension of the termination date to December 1, 2018 is approved at the Meeting, the Company will also amend the Articles to provide Shareholders with a special retraction right (the “2011 Special Retraction Right”) which is designed to provide Shareholders with an opportunity to retract their Shares and receive a retraction price that is calculated in the same way that such price would be calculated if the Company were to terminate on December 1, 2012 as originally contemplated.

If the extension of the termination date is approved, a Shareholder who retracts a Class A Share under the 2011 Special Retraction Right will receive a retraction price per Class A Share equal to the net asset value per Unit calculated on December 31, 2011, less \$10.00. A Shareholder who retracts a Preferred Share under the Special Retraction Right will receive a retraction price per Preferred Share equal to the lesser of (i) \$10.00 and (ii) the net asset value per Unit calculated on December 31, 2011. Shareholders wishing to take advantage of the 2011 Special Retraction Right must surrender their Shares for retraction no later than the close of business on December 1, 2011. Payment for the Class A Shares or Preferred Shares so tendered for retraction pursuant to the 2011 Special Retraction Right will be made no later than January 16, 2012.

## **Implementing the 2011 Special Retraction Rights**

As noted above, Shares are issued on the basis that there will be an equal number of Preferred Shares and Class A Shares outstanding. As a result of the expected exercise of the 2011 Special Retraction Right, it is highly likely that the Company will need to take steps to equalize the number of Shares of each class outstanding, depending upon the number of Shares of each class that are retracted. A number of options are open to the Company in this regard.

The Articles will be amended to provide the Company with a redemption right (the "Special Redemption Right") which will allow it to redeem on a pro rata basis such number of Preferred Shares (if more Class A Shares are tendered for redemption under the 2011 Special Retraction Right) or such number of Class A Shares (if more Preferred Shares are tendered for redemption under the 2011 Special Retraction Right) as is required to achieve an equality of outstanding Shares of each class. The redemption price paid in the case of a redemption of Preferred Shares under the Special Redemption Right would be the lesser of \$10.00 and the net asset value per Unit as at December 31, 2011; the redemption price paid in the case of a redemption of Class A Shares under the Special Redemption Right would be the net asset value per Unit as at December 31, 2011 less \$10.00.

Also, the Company may, and the special resolution will permit the Company to, file an amendment to its Articles to effect a subdivision of its outstanding Class A Shares, or if more Preferred Shares are retracted under the Special Retraction Right than Class A Shares, effect a consolidation of its outstanding Class A Shares, in each case on a basis that will maintain an equal number of Class A Shares and Preferred Shares outstanding.

It is also possible that the Company might be able to achieve an equality of outstanding Shares of each Class following the exercise of the 2011 Special Retraction Right through a private placement of Shares of the Class for which there were the greater number of redemption requests, in an amount sufficient to achieve such equality, or it might be able to recirculate (that is, find purchasers for) a sufficient number of Shares of the Class for which there were the greater number of redemption requests, again in an amount sufficient to achieve such equality, or some combination of these two options.

The method or methods to be used by the Company to achieve such equality will be determined by the Board of Directors of the Company in their discretion, assisted by the recommendation of the Manager in this regard, having regard to which options or combination of options which are considered to be in the best interests of Shareholders in light of all the circumstances then prevailing.

## **Early Termination**

In addition to extending the termination date for the Company, the Articles would also be amended to provide that the Company would be terminated if the Preferred Shares or the Class A Shares are delisted by the TSX, or if the net asset value of the Company declines to less than \$5,000,000, a level the Manager views as constituting the Company uneconomic to maintain. This would protect investors from retaining an investment in a fund the assets of which were insufficient from a cost and efficiency standpoint for it to continue as an effective investment option.

## **MATTERS TO BE VOTED ON AT THE MEETING – CHANGES TO TAKE EFFECT ON DECEMBER 1, 2018**

### **Additional Extensions for Terms of Five Years**

By approving the special resolution to extend the termination date of the Company to December 1, 2018, Shareholders will also be approving the extension of the Company for an additional term of five years as determined by the Board of Directors of the Company. The termination date may then be further extended for additional successive terms of five years each in the discretion of the Board of Directors. Shareholders will be able to redeem their Shares in connection with any such five year extension by exercising an additional retraction right (the “Continuing Special Retraction Right”) which is again designed to provide Shareholders with an opportunity to retract their Shares and receive a retraction price that is calculated in the same way that such price would be calculated if the Company were to terminate on its scheduled termination retraction date.

A Shareholder who retracts a Class A Share under the Continuing Special Retraction Right will receive a retraction price per Class A Share equal to the net asset value per Unit calculated on November 30 of the year in which the termination date is extended, less \$10.00. A Shareholder who retracts a Preferred Share under the Continuing Special Retraction Right will receive a retraction price per Preferred Share equal to the lesser of (i) \$10.00 and (ii) the net asset value per Unit calculated on November 30 of such year. Shareholders wishing to take advantage of the Continuing Special Retraction Right must surrender their Shares for retraction no later than the close of business on November 1 of the year in which the termination date is extended (or, if such November 1 is not a business day, on the immediately preceding business day). Payment for the Class A Shares or Preferred Shares so tendered for retraction pursuant to the Continuing Special Retraction Right will be made no later than December 15 of such year (or, if December 15 is not a business day, the immediately succeeding business day).

The Company will issue a press release at least 60 days prior to any scheduled termination date, indicating whether the term of the Company will be extended or not and, if it is to be extended, advising Shareholders of their Continuing Special Retraction Right.

The ability to extend the termination date as discussed above will save the Company all of the associated costs of holding a special shareholders meeting while still retaining each shareholder’s right to retract their shares on the same basis as if a termination date had occurred.

### **Implementing the Continuing Special Retraction Right**

As noted above, Shares are issued on the basis that there will be an equal number of Preferred Shares and Class A Shares outstanding. As a result of any exercise of a Continuing Special Retraction Right, it is highly likely that the Company will need to take steps to equalize the number of Shares of each class outstanding, depending upon the number of Shares of each class that are retracted.

As noted above, the Articles will also be amended to provide the Company with the Special Redemption Right as a means of ensuring that an equal number of Preferred Shares and Class A Shares outstanding following the exercise of the 2011 Special Retraction Right. The Special Redemption Right will also apply in respect of any exercise of the Continuing Special Retraction right, as it will allow the Company to redeem such number of Preferred Shares (if

more Class A Shares are tendered for redemption under the Continuing Special Retraction Right) or such number of Class A Shares (if more Preferred Shares are tendered for redemption under the Continuing Special Retraction Right) as is required to achieve an equality of outstanding Shares of each class. The redemption price paid in the case of a redemption of Preferred Shares under the Special Redemption Right would be the lesser of \$10.00 and the net asset value per Unit as at the otherwise scheduled termination date; the redemption price paid in the case of a redemption of Class A Shares under the Special Redemption Right would be the net asset value per Unit as at such date less \$10.00.

### **Changes to the Dividend Entitlement for the Preferred Shares**

In the event the Board of Directors of the Company determine to extend the Company beyond December 1, 2018, and in respect of each five year extension thereafter, the Company will determine the rate of cumulative preferential monthly dividends to be paid for the ensuing five year period. This will provide the Board of Directors with the opportunity to make any appropriate changes in the context of market conditions existing at that time. Such determination will be made no later than September 30 (or the first business day thereafter, if September 30 is not a business day) of the year in which the term of the Company is extended, and announced by press release (which press release will also set out a Shareholder's entitlement to the Continuing Special Retraction Right in connection with the extension of the term of the Company).

### **RECOMMENDATION OF THE BOARD OF DIRECTORS AND INDEPENDENT REVIEW COMMITTEE**

The Board of Directors of the Company has unanimously approved each of the matters to be voted on at the Meeting. On September 22, 2011, the Independent Review Committee for the Company advised the Manager that it was of the view that the calling and holding of the Meeting for the purpose of having Shareholders consider such matters on the terms set forth in this Circular achieves a fair and reasonable result for Shareholders.

### **INTEREST OF MANAGEMENT AND OTHERS IN THE PROPOSALS**

The Manager receives a management fee as more fully described in the Current Annual Information Form dated February 23, 2011. If the special resolution approving the extension of the termination date of the Company is passed, the Manager will continue to receive fees during the extension period. Certain of the officers and directors of the Company are also officers and directors of the Manager. These directors and officers do not receive any additional compensation from the Company for acting as directors and officers of the Company.

The principals of the Manager collectively own 68,100 Class A Shares. They have indicated to the Company that they intend to vote such Class A Shares in favour of the matters to be voted on at the Meeting.

### **DOCUMENTS INCORPORATED BY REFERENCE AND ADDITIONAL INFORMATION**

Information regarding the Company may be found in the Current Annual Information Form of the Company, which is incorporated by reference into this Circular. Additional

information regarding the Company may also be found in the following documents filed with the various provincial securities commissions or similar authorities in Canada:

- the annual audited financial statements of the Company for the fiscal year ended November 30, 2010;
- the annual Management Report of Fund Performance for the fiscal year ended November 30, 2010;
- the semi-annual unaudited financial statements of the Company for the six months ended May 31, 2011; and
- the semi-annual Management Report of Fund Performance for the six months ended May 31, 2011.

The Current Annual Information Form and these additional documents are available on SEDAR at [www.sedar.com](http://www.sedar.com) as well as on the Company's website at [www.primerateplus.com](http://www.primerateplus.com). You may also obtain copies of such documents from the Manager at 77 King Street West, Suite 4500, Toronto, Ontario M5K 1K7.

## **VOTING SECURITIES AND PRINCIPAL HOLDERS**

All of the issued and outstanding Class B Shares of the Company are owned by Prime Rate Plus Corp. Holding Trust (the "Trust"), of which S. Wayne Finch is the trustee and the holders of the Preferred Shares and Class A Shares from time to time are the beneficiaries. The Trust has approved matters to be voted on at the Meeting, as well as the filing of articles of amendment to change the name of the Company to "Canadian Banc Split Corp."

As of August 31, 2011, to the knowledge of the directors and officers of the Company, no person beneficially owned, directly or indirectly, or exercised control or direction over, more than 10% of the voting rights attached to the Preferred Shares or the Class A Shares of the Company.

## **VOTING ON THE PROPOSED CHANGES**

Shareholders will therefore be asked at the Meeting to pass special resolution substantially in the form attached hereto as Appendix "A" to approve the amendments to the Articles of the Company discussed in the Circular. This resolution, to be effective, requires the approval of not less than two-thirds of the votes cast by Shareholders of each class present in person or by proxy at the Meeting.

The special resolution relating to the filing of articles of amendment may, by its terms be terminated by the Board of Directors of the Company at any time prior to the filing of articles of amendment without further notice to, or action on the part of, Shareholders if the Board of Directors determines in its sole judgment that it would be inadvisable for the Company to proceed with the amendments to the Articles discussed in this Circular.

Unless the special resolution is passed, the Company does not intend to proceed with the change of name of the Company.

## **APPROVAL BY THE BOARD OF DIRECTORS**

The contents and mailing to Shareholders of this Circular have been approved by the Board of Directors of the Company.

A handwritten signature in black ink, appearing to read 'S. Finch', with a stylized flourish at the end.

**S. WAYNE FINCH**  
President and Chief Executive Officer  
of Canadian Banc Recovery Corp.

## APPENDIX “A”

### SPECIAL RESOLUTION OF CANADIAN BANC RECOVERY CORP.

#### BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:

1. The articles of incorporation of Canadian Banc Recovery Corp. (the “Company”), as amended (the “Articles”), be further amended to:
  - a. extend the termination date of the Company initially to December 1, 2018;
  - b. provide holders of the Preferred Shares and the Class A Shares with the 2011 Special Retraction Right, as defined in the Management Information Circular of the Company dated September 27, 2011 (the “Circular”);
  - c. provide for the Special Redemption Right, as defined in the Circular;
  - d. provide for the early termination of the Company in the circumstances described in the Circular;
  - e. provide for the extension of the Company beyond December 1, 2018 for additional terms of five years each;
  - f. provide for the Continuing Special Retraction Right, as defined in the Circular; and
  - g. change, effective December 1, 2018, the dividend entitlement of the Preferred Shares;

all as more particularly described in the Circular.

2. The Articles of the Company be further amended, in the discretion of the Board of Directors of the Company, to effect a subdivision (or consolidation) of the Class A Shares, in the event that following the exercise by Shareholders of the 2011 Special Retraction Right the number of Class A Shares outstanding is less (or more) than the number of Preferred Shares outstanding, such that following such subdivision (or consolidation) of the Class A Shares, the number of outstanding Class A Shares is equal to the number of outstanding Preferred Shares.
3. The Board of Directors and officers of the Company be and they are hereby authorized and directed to take such action and to execute and deliver all such documentation as may be necessary or desirable for the implementation of this special resolution.
4. Notwithstanding the provisions hereof, the Board of Directors of the Company may revoke this special resolution at any time prior to the endorsement by the Director of the Certificate of Amendment under the *Business Corporations Act* (Ontario) giving effect hereto without further approval of the shareholders of the Company.