

Prime Rate Plus Corp.

2006 *Annual Report*



PRIME RATE PLUS
CORP

This report may contain forward-looking statements about the Company. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Company action, is also forward-looking. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company and economic factors.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Company. Any number of important factors could contribute to any divergence between what is anticipated and what actually occurs, including, but not limited to, general economic, political and market factors, interest and foreign exchange rates, global equity and capital markets, business competition, technology change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

The above-mentioned list of important factors is not exhaustive. You should consider these and other factors carefully before making any investment decisions and you should avoid placing undue reliance on forward-looking statements. While the Company currently anticipates that subsequent events and developments may cause the Company's views to change, the Company does not undertake to update any forward-looking statements

Annual Management Report of Fund Performance

November 30, 2006

This is the annual **Management Report of Fund Performance (MRFP)** for the period ended November 30, 2006. This MRFP contains financial highlights but does not contain the complete financial statements of the Company. The annual financial statements and accompanying notes are attached to this report.

Investors may also obtain a copy of the Company's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure by visiting our website at www.primerateplus.com or by writing to the Company at Investor Relations, Royal Trust Tower, 77 King Street West, P.O. Box 341, Toronto, Ontario, M5K 1K7.

These reports are available to view and download at www.primerateplus.com or www.sedar.com.

Investment Objectives and Strategies

Prime Rate Plus Corp. invests primarily in a portfolio of common shares which will include each of the following Canadian chartered banks:

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

The Company may also invest up to 20% of the Net Asset Value in equity securities of Canadian or foreign financial services corporations other than the core holdings listed above. In order to supplement the dividends received on the portfolio and to reduce risk, the Company will from time to time write covered call options in respect of some or all of the common shares in the portfolio.

The Company offers two types of shares:

Preferred Shares

The investment objectives with respect to the Preferred shares are as follows:

1. to provide holders with cumulative preferential floating rate monthly cash dividends at a rate per annum equal to the prevailing Canadian prime rate plus 0.75%, with a minimum annual rate of 5.0% and a maximum annual rate of 7% based on original issue price; and
2. on or about December 1, 2012 (the termination date) to pay holders the original issue price (\$10) of those shares.

Class A Shares

The investment objectives with respect to the Class A shares are as follows:

1. to provide holders with regular floating rate monthly cash distributions targeted to be at a rate per annum equal to the prevailing Canadian prime rate plus 2%, with a minimum targeted annual rate of 5% and a maximum targeted annual rate of 10.0%; and
2. on or about December 1, 2012 (the termination date) to pay holders the original issue price (\$15) of those shares.

Risk

The risks of investing in the Company remain as discussed in the Annual Information form dated February 21, 2007.

Results of Operations

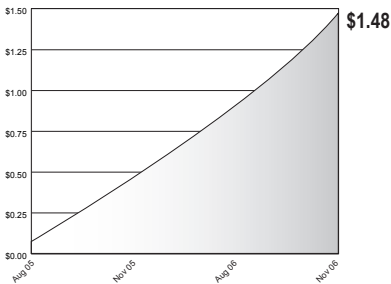
Distributions to both Class A shareholders and Preferred shareholders were made at the Canadian prime rate plus formula as outlined above in the Investment Objectives section. The Canadian prime rate which began the year at 4.75% increased by 1.25% to 6.00% as at November 30, 2006 which resulted in increased monthly distributions for both classes of shares. The net asset value per unit increased by \$1.71 to \$26.43 (after all distributions paid) as at November 30, 2006. As at November 30, 2006, the Company's portfolio was primarily invested in the six core Chartered Banks. The dividend income in the portfolio continues to be supplemented by a limited covered call writing program which provides some additional income to the portfolio.

Distributions

Class A Shares – Distributions

Class A shareholders are entitled to receive regular monthly cash dividends initially targeted to yield a floating rate based on the prime rate in Canada plus 2% per annum on the original issue price. Distributions paid during the year include 12 distributions at the targeted rate for a total of \$1.15 per share.

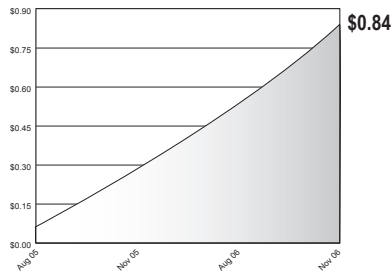
Cumulative Distributions since inception



Preferred Shares – Distributions

Preferred shareholders are entitled to receive regular monthly cash dividends initially targeted to yield a floating rate based on the prime rate in Canada plus 0.75% per annum on the original issue price. Distributions paid during the year include 12 distributions at the targeted rate for a total of \$0.64 per share.

Cumulative Distributions since inception



Recent Developments

The Federal government's November 23, 2005 proposal to reduce federal taxes on ordinary dividend income received from Canadian corporations was enacted at both the federal and provincial levels.

As a result, both Preferred shareholders and Class A shareholders will benefit through the enhanced after-tax return they will receive on ordinary dividend payments received in 2006 and beyond. In most provinces, the effective marginal tax rate on ordinary dividend income is now approximately the same taxation rate as capital gains.

Related Party Transactions

None

Management fees

The Investment Manager is entitled to a base management fee payable monthly in arrears at an annual rate equal to 0.65% of the Company's Net Asset Value calculated as at the last Valuation Date in each month.

The Manager is entitled to an administration fee payable monthly in arrears at an annual rate equal to 0.2% of the Company's Net Asset Value calculated as at the last Valuation Date in each month.

Total management fees of \$2,498,159 paid for the period ended November 30, 2006 include the base management fee and the administration fee. The base management fee was used by the Investment Manager to pay costs associated with the managing of the investment portfolio, providing investment analysis and recommendations, making investment decisions and making brokerage arrangements for the purchase and sale of securities, including the covered call writing program. The administration fee was used to provide or arrange administrative services required by the Company, which includes all operational, financial accounting, shareholder reporting and regulatory reporting requirements.

In addition, the Investment Manager is also entitled to receive a performance fee subject to the achievement of certain pre-established total thresholds. The Company achieved a total net asset value per unit return of 14.7% on a net asset value per unit basis including distributions. This exceeded the minimum bonus threshold return of 12% per annum and allowed the Investment Manager to earn a performance fee of 6.6 cents per unit in 2006.

Summary of Investment Portfolio

All holdings as at November 30, 2006

| | | |
|--|------|---|
| Canadian Imperial Bank of Commerce | 23.1 | % |
| Toronto-Dominion Bank | 21.2 | % |
| Bank of Nova Scotia | 16.3 | % |
| Royal Bank of Canada | 15.1 | % |
| Bank of Montreal | 14.4 | % |
| National Bank of Canada | 8.8 | % |
| Manulife Financial Corporation | 0.7 | % |
| Total long positions as a percentage of net assets | 99.6 | % |
| Other net assets | 0.4 | % |

The summary of investment portfolio may change due to ongoing portfolio transactions of the Company. Updates are available quarterly.

Financial Highlights

The following tables show selected financial information about the Company and are intended to help you understand the Company's financial performance. This information is derived from the Company's audited annual financial statements.

The Company's Net Asset Value (NAV) per unit

| | 2006 | 2005 ⁽²⁾ |
|--|---------------|----------------------------|
| Net asset value per unit, beginning of year ⁽¹⁾ | 24.72 | 23.76 ⁽³⁾ |
| Increase (decrease) from operations | | |
| Total revenue | 0.75 | 0.24 |
| Total expenses | (0.48) | (0.12) |
| Realized gains for the period | 0.42 | 0.01 |
| Unrealized gains for the period | 2.81 | 1.35 |
| Total increase from operations ⁽⁴⁾ | <u>3.50</u> | <u>1.48</u> |
| Distributions ⁽⁵⁾ | | |
| Taxable Dividends | (1.28) | (0.48) |
| Capital Gains | <u>(0.51)</u> | <u>(0.04)</u> |
| Total annual distributions | <u>(1.79)</u> | <u>(0.52)</u> |
| Net asset value per unit at November 30 | <u>26.43</u> | <u>24.72</u> |
| | | |
| Net asset value per Preferred share | 10.00 | 10.00 |
| Net asset value per Class A share | <u>16.43</u> | <u>14.72</u> |
| Net asset value per unit at November 30 | 26.43 | 24.72 |

⁽¹⁾ Net asset value per unit is the difference between the aggregate value of the assets of the Company and the aggregate value of the liabilities excluding the Preferred shares of the Company on that date divided by the number of units then outstanding

⁽²⁾ Results for the period July 15, 2005 (inception) to November 30, 2005

⁽³⁾ Initial net asset value per unit is after deducting all agents' fees and filing costs in connection with the initial public offering.

⁽⁴⁾ Total increase from operations is before the payment of Preferred and Class A share distributions and is calculated based on the weighted average number of units outstanding during the year.

⁽⁵⁾ Distributions are to Preferred shares and Class A shares are based on the number of Preferred shares and Class A shares outstanding on the record date for each distribution and were paid in cash. Characterization of distributions is based on the tax treatment that is received by investors.

Ratios And Supplemental Data

| | 2006 | 2005 ⁽¹⁾ |
|--|------------|---------------------|
| Net assets (millions) | \$304.6 | \$284.9 |
| Number of units outstanding ⁽²⁾ | 11,525,000 | 11,525,000 |
| Base Management expense ratio ⁽³⁾ | 1.38% | 1.30% |
| Management expense ratio including one time initial offering expenses ⁽⁴⁾ | 1.38% | 6.50% |
| Management expense ratio with performance fee and one time initial offering expenses | 1.92% | 6.50% |
| Portfolio turnover rate ⁽⁵⁾ | 15.0% | 0.5% |
| Trading expense ratio ⁽⁶⁾ | 0.03% | 0.07% |
| Closing market price (TSX): Preferred shares | \$11.40 | \$11.15 |
| Closing market price (TSX): Class A shares | \$14.37 | \$14.45 |

⁽¹⁾ Results for the period July 15, 2005 (inception) to November 30, 2005.

⁽²⁾ This information is provided as at November 30

⁽³⁾ A separate base management expense ratio has been presented to reflect the normal operating expenses of the Company excluding the one time initial offering expenses. Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

⁽⁴⁾ Share issue expenses, representing all Agents' fees and other offering expenses are one time initial expenses connected with the launch of the Company.

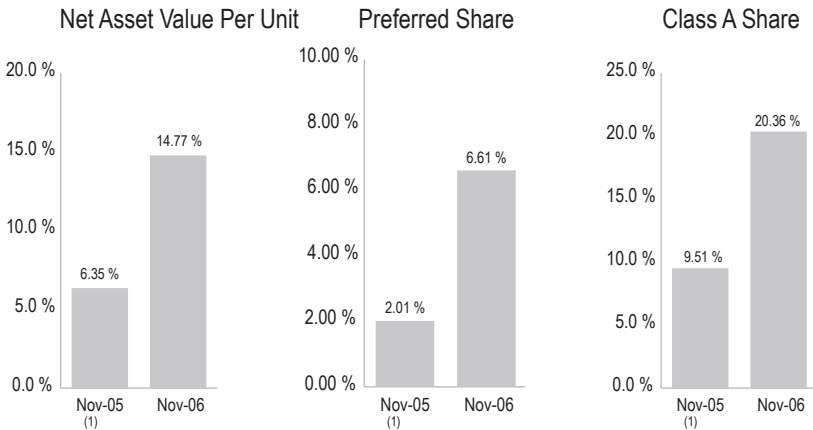
⁽⁵⁾ The Company's portfolio turnover rate indicates how actively the Company's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Company buying and selling all of the securities in its portfolio once in the course of the year. The Company employs a covered call writing strategy which can cause the portfolio turnover rate to be higher than conventional mutual funds.

⁽⁶⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period

Past Performance

The past performance of 1) the net asset value per unit (1 Preferred share and 1 Class A share); 2) the Preferred share on net asset value basis; and 3) the Class A share on a net asset value basis for the annual periods ending November 30 is presented in the bar charts below. In respect to the charts displayed below, please note the following:

- The performance information shown assumes that all cash distributions made by the Company during the periods shown were reinvested in the applicable additional securities of the Company,
- The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance; and,
- Past performance of the Company does not necessarily indicate how it will perform in the future.



⁽¹⁾ Based on the initial period from July 15, 2005 to November 30, 2005

Annual Compound Performance

The following table shows the Company's annual compound return for the period ended November 30, 2006:

| | One Year | Since Inception |
|---|----------|-----------------|
| Prime Rate Plus Corp. - Unit | 14.77% | 15.36% |
| Prime Rate Plus Corp. - Preferred share | 6.61% | 6.24% |
| Prime Rate Plus Corp. - Class A share | 20.36% | 21.78% |
| Benchmark Index ⁽¹⁾ | N/A | N/A |

⁽¹⁾ As a result of the Company being limited to a specific universe of stocks and that a covered call writing program is implemented to generate additional income, the investment profile of the Company is quite unique and any comparisons with any other external market indices may not be appropriate.

Auditors' Report

January 15, 2007

Auditors' Report

To the Shareholders of Prime Rate Plus Corp.

We have audited the statement of portfolio investments of **Prime Rate Plus Corp.** (the "Company") as at November 30, 2006, the statements of financial position as at November 30, 2006 and 2005 and the statements of operations and retained earnings, changes in shareholders' equity and cash flow for the year ended November 30, 2006 and the period from July 15, 2005 (date of commencement) to November 30, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2006 and 2005 and the results of its operations and cash flow for the year ended November 30, 2006 and the period from July 15, 2005 to November 30, 2005 in accordance with Canadian generally accepted accounting principles.

Price Waterhouse Coopers LLP

Chartered Accountants

Toronto, Ontario

Prime Rate Plus Corp.

Statements of Financial Position

As at November 30

| | 2006 | 2005 |
|--|---------------------------|---------------------------|
| Assets | (\$) | (\$) |
| Investments* - at market value | 302,534,145 | 281,322,716 |
| Cash | 5,937,376 | 5,433,696 |
| Interest, dividends and other receivables | 13,000 | 12,300 |
| Total Assets | <u>308,484,521</u> | <u>286,768,712</u> |
| Liabilities | | |
| Fees and other accounts payable | 426,463 | 406,433 |
| Accrued performance fee | 1,657,975 | - |
| Distributions payable | 1,800,781 | 1,500,651 |
| Preferred shares (note 3) | 115,250,000 | 115,250,000 |
| | <u>119,135,219</u> | <u>117,157,084</u> |
| Shareholders' Equity | | |
| Class A and Class B shares (note 4) | 158,546,000 | 158,546,000 |
| Retained earnings | 30,803,302 | 11,065,628 |
| | <u>189,349,302</u> | <u>169,611,628</u> |
| Total Liabilities & Shareholders' Equity | <u>308,484,521</u> | <u>286,768,712</u> |
| *cost \$254,541,435 (2006); \$265,769,977 (2005) | | |
| Number of units (1 Preferred share and 1 Class A share) outstanding | 11,525,000 | 11,525,000 |
| Net asset value per unit | \$26.43 | \$24.72 |
| Net asset value per Preferred share | \$10.00 | \$10.00 |
| Net asset value per Class A share | \$16.43 | \$14.72 |

Approved on behalf of the Board of Directors



Wayne Finch
Chairman and
Chief Investment Officer



Peter Cruickshank
Managing Director and
Chief Financial Officer

Prime Rate Plus Corp.

Statements of Operations and Retained Earnings

For the year ended November 30, 2006 and for the period
from July 15 to November 30, 2005

| | 2006 (\$) | For the period from July 15, 2005 to Nov 30, 2005 (\$) |
|---|---------------------|---|
| Income | | |
| Dividends | 8,612,676 | 2,671,045 |
| Interest | 35,550 | 122,628 |
| | <u>8,648,226</u> | <u>2,793,673</u> |
| Expenses (note 5) | | |
| Management fees | 2,498,159 | 891,954 |
| Performance fee | 1,564,127 | - |
| Service fees | 903,377 | 301,412 |
| Audit fees | 16,653 | 15,888 |
| Directors' fees | 41,970 | 7,374 |
| Custodian fees | 52,233 | 24,820 |
| Legal fees | 9,534 | - |
| Shareholder reporting costs | 32,001 | - |
| Other operating expenses | 177,388 | 38,614 |
| Capital tax | 417 | - |
| Goods and services tax | 279,804 | 68,504 |
| | <u>5,575,663</u> | <u>1,348,566</u> |
| Net investment income before distributions on Preferred shares | 3,072,563 | 1,445,107 |
| Distributions on Preferred shares (note 3 and 6) | (7,395,247) | (2,294,493) |
| Net investment (loss) for the year | (4,322,684) | (849,386) |
| Realized and unrealized gain on investments and options | | |
| Net realized gain on investments and options | 4,874,271 | 107,900 |
| Change in unrealized appreciation of investments | 32,439,971 | 15,552,739 |
| Net gain on investments and options for the year | 37,314,242 | 15,660,639 |
| Increase in net assets from operations for the year | 32,991,558 | 14,811,253 |
| Retained earnings - Beginning of year | 11,065,628 | - |
| Distributions on Class A shares (note 4 and 6) | (13,253,884) | (3,745,625) |
| Retained earnings - End of year | 30,803,302 | 11,065,628 |
| Increase in net assets from operations per Class A share | 2.86 | 1.29 |

The accompanying notes are an integral part of these financial statements.

Prime Rate Plus Corp.

Statements of Changes in Shareholders' Equity

For the year ended November 30, 2006 and for the period
from July 15 to November 30, 2005

| | 2006 | For the period from July 15, 2005 to Nov 30, 2005 |
|---|---------------------|---|
| | (\$) | (\$) |
| Shareholders' equity - Beginning of year | 169,611,628 | - |
| Increase in net assets from operations | 32,991,558 | 14,811,253 |
| Gross proceeds from issue of Class A shares | - | 172,875,000 |
| Agents' fees and filing costs in connection with the initial public offering | - | (14,330,000) |
| Net proceeds from issue of Class A shares (note 4) | - | 158,545,000 |
| Net proceeds from issue of Class B shares (note 4) | - | 1,000 |
| Distributions on Class A shares | | |
| From net realized gains | (551,587) | - |
| From return of capital | (12,702,297) | (3,745,625) |
| | (13,253,884) | (3,745,625) |
| Increase in net assets for the year | 19,737,674 | 169,611,628 |
| Shareholders' equity - End of year | 189,349,302 | 169,611,628 |

The accompanying notes are an integral part of these financial statements.

Prime Rate Plus Corp.

Statements of Cash Flow

For the year ended November 30, 2006 and for the period
from July 15 to November 30, 2005

| | | For the period from July 15, 2005 to Nov 30, 2005 |
|---|------------------|---|
| | 2006 | |
| | (\$) | (\$) |
| Cash flow from Operating activities | | |
| Net investment (loss) | (4,322,684) | (849,386) |
| Proceeds from sale of investments | 57,721,056 | 1,319,400 |
| Purchase of investments | (41,618,243) | (266,981,477) |
| Net change in receivable balances | (700) | (12,300) |
| Net change in payable balances | 1,978,135 | 1,907,084 |
| Cash flow from operations | 13,757,564 | (264,616,679) |
| Cash flow from Shareholder activities | | |
| Gross proceeds from the issue of Class A shares and Preferred shares* | - | 288,126,000* |
| Agents' fee and filing fees in connection with the initial public offering | - | (14,330,000) |
| Distributions on Class A shares | (13,253,884) | (3,745,625) |
| Cash flow from Shareholder activities | (13,253,884) | 270,050,375 |
| Net increase in cash | 503,680 | 5,433,696 |
| Cash, beginning of year | 5,433,696 | - |
| Cash, end of year | 5,937,376 | 5,433,696 |

*includes 1,000 Class B shares

The accompanying notes are an integral part of these financial statements.

Prime Rate Plus Corp.

Statement of Portfolio Investments

As at November 30, 2006

| No. of shares | Description | Average cost/ (Premiums received) (\$) | Market value(\$) |
|--|---|---|---------------------------|
| Canadian Core Common Equities | | | |
| 642,400 | Bank of Montreal | 38,260,744 | 43,933,736 |
| 955,200 | Bank of Nova Scotia | 39,969,929 | 49,622,640 |
| 786,000 | Canadian Imperial Bank of Commerce | 60,847,450 | 70,504,200 |
| 421,000 | National Bank of Canada | 24,666,033 | 26,691,400 |
| 862,500 | Royal Bank of Canada | 34,497,302 | 45,954,000 |
| 964,200 | Toronto-Dominion Bank | 55,206,231 | 64,572,474 |
| Total Canadian Core Common Equities (99.6%) | | <u>253,447,689</u> | <u>301,278,450</u> |
| Other Canadian Common Equities | | | |
| 56,000 | Manulife Financial Corporation | 2,047,682 | 2,112,320 |
| Total Other Canadian Common Equities (0.7%) | | <u>2,047,682</u> | <u>2,112,320</u> |
| Total Canadian Common Equities | | <u>255,495,371</u> | <u>303,390,770</u> |
| Call Options written (100 shares per contract) | | | |
| Canadian call options written | | | |
| (750) | Bank of Montreal, December 2006 @ \$72 | (45,000) | (5,625) |
| (600) | Bank of Nova Scotia, January 2007 @ \$54 | (16,800) | (16,500) |
| (700) | Bank of Nova Scotia, January 2007 @ \$52 | (77,426) | (66,500) |
| (1,000) | Canadian Imperial Bank of Commerce, January 2007 @ \$90 | (210,353) | (165,000) |
| (1,400) | Canadian Imperial Bank of Commerce, December 2006 @ \$90 | (145,236) | (147,000) |
| (600) | Canadian Imperial Bank of Commerce, December 2006 @ \$95 | (35,100) | (6,000) |
| (500) | Manulife Financial Corp., January 2007 @ \$37 | (46,750) | (72,500) |
| (1,000) | National Bank of Canada, January 2007 @ \$66 | (78,000) | (55,000) |
| (700) | National Bank of Canada, December 2006 @ \$66 | (38,503) | (10,500) |
| (900) | Royal Bank of Canada, January 2007 @ \$55 | (83,700) | (81,000) |
| (1,000) | Royal Bank of Canada, January 2007 @ \$56 | (63,500) | (35,000) |
| (1,400) | Toronto-Dominion Bank, December 2006 @ \$66 | (113,568) | (196,000) |
| Total Canadian call options written (-0.3%) | | <u>(953,936)</u> | <u>(856,625)</u> |
| Total Investments (100%) | | <u>254,541,435</u> | <u>302,534,145</u> |

The Statement of Portfolio Investments is at November 30, 2006 and may or may not be indicative of the current portfolio. Due to tax considerations, the level of option premiums outstanding at year end may not be indicative of options outstanding during the year.

The accompanying notes are an integral part of these financial statements.

Prime Rate Plus Corp.

Notes to Financial Statements

For the year ended November 30, 2006 and for the period from July 15 to November 30, 2005

1. Incorporation

Prime Rate Plus Corp. (the "Company") is a mutual fund corporation established under the laws of the Province of Ontario on May 25, 2005 and began investment operations on July 15, 2005. The manager of the Company is Quadravest Inc. (the Manager) and the investment manager is Quadravest Capital Management Inc. (Quadravest). All shares outstanding on December 1, 2012, the termination date of the Company, will be redeemed by the Company on that date.

2. Summary of significant accounting policies

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amount of assets, liabilities, income and expenses during the reporting years. The following is a summary of the significant accounting policies followed by the Company. Actual results could differ from these estimates.

Valuation of investments

Investments are recorded in the financial statements at their market values at the end of the year, determined as follows:

- Shares or other securities for which market quotations are readily available are valued at the closing sale price or, if there is no sale price, the average of the closing bid and ask prices.
- Listed options are valued at market values as reported on recognized exchanges. Over the counter options are valued using an appropriate valuation model.

Investment transactions and income recognition

- Investment transactions are accounted for on the trade date.
- Realized gains and losses on investment sales and unrealized appreciation or depreciation in investment values are calculated on the average cost basis.
- Option fees paid or received are deferred and included in investments on the statements of financial position. Realized capital gains or losses are recognized in the statements of operations when options are exercised, expire or are closed out.
- Deferred gains and losses on options are recognized in investments and as a component of net unrealized appreciation (depreciation) in the value of investments in shareholders' equity.
- Dividend income is recognized on the ex-dividend date. Interest income is recognized when earned.
- Net realized gains and losses on investments include net realized gains or losses from foreign currency changes.

Prime Rate Plus Corp.

Notes to Financial Statements

For the year ended November 30, 2006 and for the period from July 15 to November 30, 2005

3. Preferred shares

The Company is authorized to issue an unlimited number of Preferred shares.

| | | |
|---|----------------------|----------------------|
| Issued and outstanding | November 30, 2006 | November 30, 2005 |
| 11,525,000 Preferred shares (2005-11,525,000) | <u>\$115,250,000</u> | <u>\$115,250,000</u> |

On July 15, 2005, 11,200,000 Preferred shares were issued at \$10 per share. An additional 325,000 Preferred shares were issued for proceeds of \$3,250,000.

Preferred shares are entitled to cumulative preferential floating rate monthly cash dividends at a rate per annum equal to the Prime Rate in Canada plus 0.75% with a minimum annual rate of 5.0% and a maximum annual rate of 7.0% (based on the original issue price).

All Preferred shares outstanding on December 1, 2012 will be redeemed by the Company on that date. For accounting purposes, the Preferred shares have been presented as liabilities in the financial statements in accordance with Section 3860 of the CICA Handbook.

Preferred shares trade under the symbol "PPL.PR.A" on the Toronto Stock Exchange (TSX). Preferred shares trading price on the TSX was \$11.40 as at November 30, 2006 (November 30, 2005 - \$11.15). Preferred shares may be surrendered at any time for retraction at specified retraction amounts, but will be retracted only on the last day of each month. Shareholders who concurrently retract a Preferred share and a Class A share (together, a "unit") in the month of July in each year will be entitled to receive an amount equal to the net asset value per unit on the last day of July. Preferred shares retracted in any other month will receive a retraction price based on a discounted specified retraction formula. The net asset value per unit as at November 30, 2006 was \$26.43 (November 30, 2005 - \$24.72). Under the terms of a Recirculation Agreement, the Company may, but is not obligated to, require the Recirculation Agent to use its best efforts to find purchasers for any Preferred shares or Class A shares tendered for retraction.

The Preferred shares rank in priority to the Class A shares with respect to the payment of dividends. Preferred shares rank in priority to the Class A shares upon termination of the Company.

4. Class A shares and Class B shares

Authorized

An unlimited number of Class A shares
1,000 Class B shares

| | | |
|---|----------------------|----------------------|
| <u>Issued and outstanding</u> | November 30, 2006 | November 30, 2005 |
| 11,525,000 Class A shares (2005-11,525,000) | \$158,545,000 | \$158,545,000 |
| 1,000 Class B shares | <u>\$1,000</u> | <u>\$1,000</u> |
| | <u>\$158,546,000</u> | <u>\$158,546,000</u> |

Class A shares were issued at \$15 per share. Class A share distributions are floating rate monthly cash distributions targeted to be at a rate per annum equal to the Prime Rate in Canada plus 2.0% with a minimum targeted annual rate of 5.0% and a maximum targeted annual rate of 10% (based on the original issue price). All Class A shares outstanding on December 1, 2012 will be redeemed by the Company on that date.

Prime Rate Plus Corp.

Notes to Financial Statements

For the year ended November 30, 2006 and for the period from July 15 to November 30, 2005

Class A shares trade under the symbol "PPL" on the Toronto Stock Exchange (TSX). Class A shares trading price on the TSX was \$14.37 as at November 30, 2006 (November 30, 2005 - \$14.45). Class A shares may be surrendered at any time for retraction at specified retraction amounts, but will be retracted only on the last day of each month. Shareholders who concurrently retract a Class A share and an Preferred share (together, a "unit") in the month of July in each year will be entitled to receive an amount equal to the net asset value per unit on the last day of July. Class A shares retracted in any other month will receive a retraction price based on a discounted specified retraction formula. The net asset value per unit as at November 30, 2006 was \$26.43 (November 30, 2005 - \$24.72). Under the terms of a Recirculation Agreement, the Company may, but is not obligated to, require the Recirculation Agent to use its best efforts to find purchasers for any Preferred shares or Class A shares tendered for retraction.

The Preferred shares rank in priority to the Class A shares with respect to the payment of dividends. Upon the termination of the Company, Class A shareholders will receive an amount equal to the net asset value per unit less \$10 (the redemption value of the Preferred shares).

On July 15, 2005, the Company issued 11,200,000 Class A shares for a gross proceeds of \$168,000,000. An additional 325,000 Class A shares were issued on July 29, 2005 for proceeds of \$4,875,000. Agents' fees of \$13,830,000 and filing costs of \$500,000 were incurred in connection with this offering.

The holders of Class B shares are not entitled to receive dividends. The Class B shares are retractable at a price of \$1.00 per share. Class B shareholders are entitled to one vote per share. On July 15, 2005, the Company issued \$1,000 Class B shares to Quadravest Capital Management Inc., the Company's investment manager, for cash consideration of \$1,000.

5. Expenses

The Company is responsible for all expenses incurred in connection with the operation and administration of the Company, including, but not limited to, ongoing custodian, transfer agent, legal and audit expenses.

Pursuant to the administration agreement, the Manager is entitled to an administration fee payable monthly in arrears at an annual rate of 0.20% of the net assets of the Fund, which includes the outstanding Preferred shares, calculated as at each monthly valuation date and an amount equal to the service fee payable to dealers on the Class A Shares at a rate of 0.50% per annum.

Pursuant to the terms of the investment management agreement, Quadravest is entitled to a base management fee payable in arrears at an annual rate equal to 0.65% of the net assets of the Company, which includes the outstanding Preferred shares, calculated as at each monthly valuation date. In addition, Quadravest is entitled to receive a performance fee subject to the achievement of certain pre-established total return thresholds.

Total management fees of \$2,498,159 (November 30, 2005 - \$891,954) incurred during the year include the administration fee and base management fee. In 2006, the Company achieved a total return of 14.7% on a net asset value per unit basis including distributions. This exceeded the minimum bonus threshold return of 12% per annum and allowed the Investment Manager to earn a performance fee of 6.6 cents per unit in 2006.

Prime Rate Plus Corp.

Notes to Financial Statements

For the year ended November 30, 2006 and for the period from July 15 to November 30, 2005

5. Expenses (continued)

Total brokerage commission paid during the year by the Company for its portfolio transactions were \$91,915 (November 30, 2005 - \$180,815).

6. Distributions

The Company's investment objectives are to provide floating monthly distributions to both the Preferred and Class A shareholders while returning the original issue price to each shareholder on the termination date of the Company on December 1, 2012.

Distributions per share were as follows:

| | November 30, 2006 | November 30, 2005 |
|------------------|-------------------|-------------------|
| Preferred shares | \$0.6417 | \$0.1991 |
| Class A shares | \$1.1500 | \$0.325 |

7. Income Taxes

The Company is a mutual fund corporation as defined in the Income Tax Act (Canada) (the Act) and is subject to tax in respect of its net realized capital gains. This tax is refundable in certain circumstances. Also, the Company is generally subject to a tax of 33-1/3% under Part IV of the Act on taxable dividends received in the year. This tax is fully refundable upon payment of sufficient dividends.

The Company is also a financial intermediary corporation as defined in the Act and, as such, is not subject to tax under Part IV.1 of the Act on dividends received nor is it generally liable to tax under Part VI.1 on dividends paid on taxable preferred shares.

8. Financial instruments and risk management

The fair values of the Company's assets and liabilities are affected by changes in interest rates and equity markets. The Company manages these risks through the use of various risk limits and trading strategies.

Notes

Notes

Quadravest Capital Management Inc.

Quadravest Capital Management Inc. was formed in 1997 and is focused on the creation and management of enhanced yield products for retail investors. The investment strategy combines fundamental based equity investing with covered call writing. Guided by four key principles, Quadravest sets attainable investment objectives that allow the team to stay focused on a long-term investment strategy.

The four principles – innovation in financial products, discipline in investment management, solid results for investors, and excellence in client service – form the foundation of Quadravest. Each member of the firm's tight-knit team is committed to upholding these principles, ensuring a coherence and dedication that is unique to the Company.

Quadravest has raised over \$2.5 billion in initial public offerings.

Board of Directors

Wayne Finch,
Chairman and
Chief Investment Officer

Peter Cruickshank,
Managing Director and
Chief Financial Officer

Laura Johnson,
Managing Director and
Portfolio Manager

William Thornhill,
President, William C.
Thornhill Consulting Inc.

Michael W. Sharp
Blake, Cassels & Graydon LLP

John Steep
Consultant

Corporate Details

Auditors

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Transfer Agent

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Custodian

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