

Guide to
Preferred Shares

2013

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To see if investing in preferred shares is right for your situation and financial goals, talk to your ScotiaMcLeod advisor or visit www.scotiamcleod.com to locate a local ScotiaMcLeod advisor near you.

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Introduction

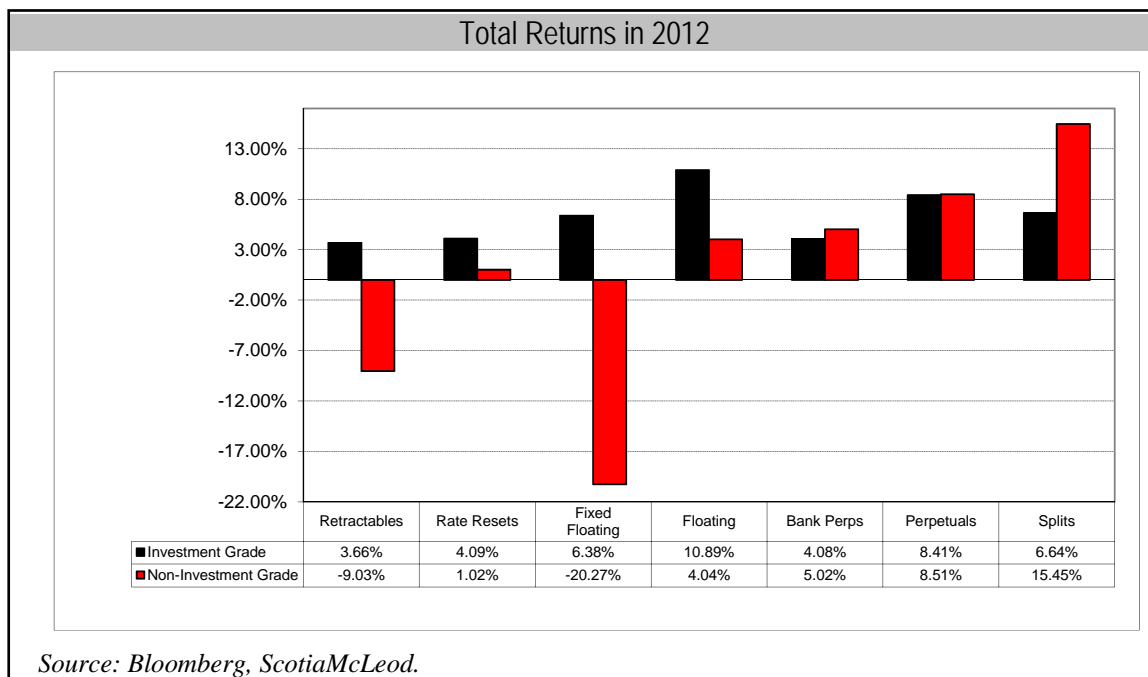
Market Overview

Demand for Quality Tax-Efficient Dividend Income Continues

During 2012 the Canadian preferred share market continued to be viewed as a safe haven as investors were influenced by global concerns such as the efforts to stabilize Europe's financial crisis, fiscal negotiations and ongoing Fed intervention in the United States. However, overall growth and inflation in Canada were quite weak in 2012. With interest rates remaining at low levels, the corporate credit market outperformed as credit spreads narrowed and investors moved down the credit scale to achieve higher returns. Preferred shares were often incorporated into fixed income portfolios to enhance yield and allow investors to collect a stable source of tax-efficient dividend income.

The S&P/TSX Preferred Share Index rose by 0.39% on a price basis (not including dividend payments) in 2012 and +5.51% on a total return basis. These results are almost an exact replica of those seen in 2011 when the Index returns were 0.44% (price appreciation) and +5.76% (total return). Currently the weighted average dividend for the iShares S&P/TSX Preferred Share ETF which tracks the Index is 4.78% which further demonstrates that overall, preferred share prices remained relatively constant over the year while the investors' return was based on the dividend income the securities provided. In comparison, the corporate bond market (DEX Corporate Bond Index +6.22%) and the Canadian Equity Market (S&P/TSX Composite Index +7.19%) slightly outperformed and provided investors with higher positive returns over the year vs. preferred shares.

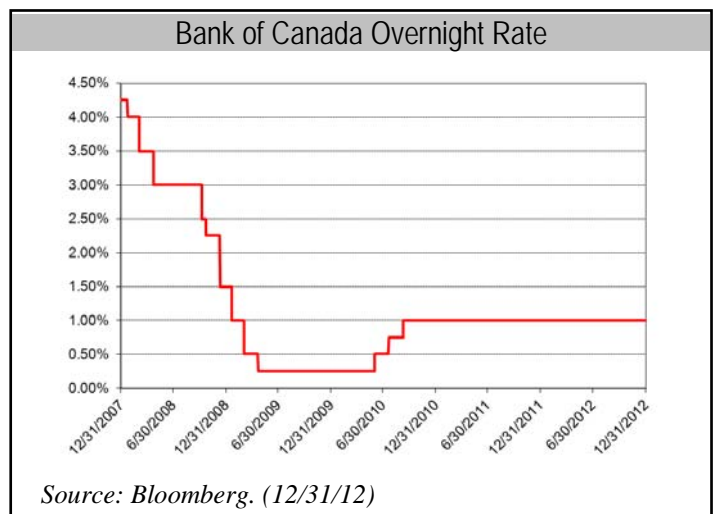
This past year it was the investment grade preferred shares which provided a positive return across all types of preferred shares while the non-investment grade sector tended to exhibit more volatility with respect to returns (as seen in the graph below). Looking across the various types of preferred shares, the floating rate preferred shares and the non-bank fixed rate perpetuals were the top performers. The retractable sector underperformed on the year.



Investment grade retractable preferred shares only delivered a return of 3.66% over the year. This type of preferred share most closely resembles a corporate bond as there is a fixed maturity date. As retractables are considered the safest type of preferred share they often trade with a negative yield to call. As the low interest rate environment has continued, companies have been able to redeem their existing retractable preferred shares and re-finance by issuing a rate reset preferred share at a much lower dividend rate. This phenomenon can help explain the underperformance of this sector, a trend that will likely continue in 2013.

Non-bank fixed rate perpetual preferred shares have a long duration (no maturity date) and hence perform well when long-term (30-year) interest rates decline. During 2012, 30-year Government of Canada bond yields declined by -0.13%. At the beginning of the year non-bank fixed rate perpetuals were trading at a discount and offered a dividend yield of approx. 5.49%. However, as interest rates move higher, non-bank perpetuals will move in the opposite direction (price depreciation) while floating rate preferred shares should continue to appreciate. Due to the Basel III regulation changes, bank fixed rate perpetuals have become their own type of preferred share as these securities are expected to be redeemed over the next 10 years and are trading with a much lower duration than non-bank fixed rate perpetuals.

Floating rate preferred shares pay investors a dividend based on bank Prime. This type of preferred share performs well when short-term interest rates rise and on the expectation of rising rates in the future. Throughout the year, the Bank of Canada's kept its target overnight rate at 1.00%, hence Prime remained at 3.00% for the entirety of 2012. However, throughout the year there were some changes in the language in the Bank of Canada statements. In April of 2012, the Bank of Canada warned that eventually, low interest rates would have to rise. This hawkish stance was softened over the remainder of the year as additional commentary warned of factors such as weak or uncertain global outlook. With the Fed extending its low-rate guidance until mid-2015, renewed safe-haven concerns globally and weaker Canadian inflation numbers the likelihood of a rate increase in Canada has been extended.



Economic Forecast

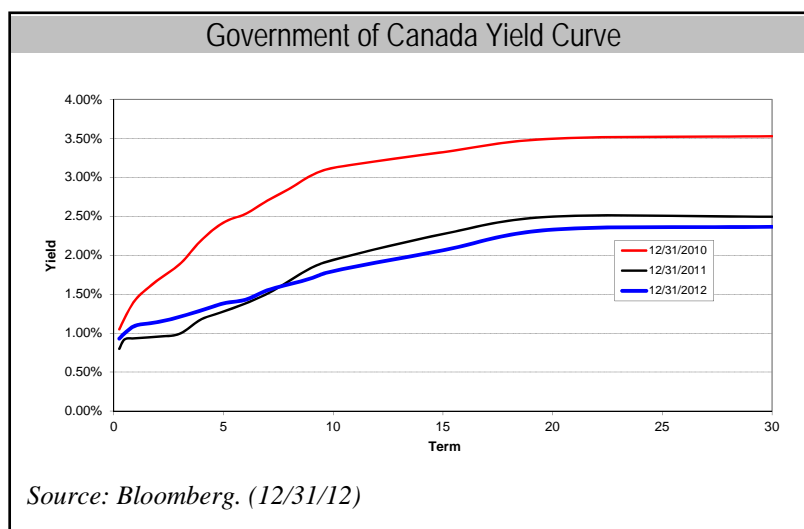
Scotia Economics is expecting that global economic activity will build momentum, albeit gradually, over the next two years. Worldwide output growth is forecast to increase 3.2% this year. It is thought that the U.S. economy has the potential to outperform, especially if a credible fiscal consolidation plan emerges and ensues confidence. U.S. output growth is forecast to advance 1.9% in 2013 and 2.7% in 2014. Canada however, is expected to lag the performance in the U.S. as the Canadian housing market is moderating and Canadians are becoming more cautious borrowers. Canadian growth output is expected to advance 1.7% in 2013 and 2.4% in 2014. Core inflation pressures which have been weak in 2012 (1.1%) are expected to increase in 2013 as Canadian core consumer prices are forecast to increase by 2.1%. The Bank of Canada overnight target rate is expected to remain on hold throughout 2013 and is not expected to be increased until early 2015. The complete forecast for the Government of Canada yield curve can be seen in the table below. Essentially, we are anticipating a steeper yield curve with higher yields across the board and the Bank of Canada leaving the overnight rate at 1.00% throughout 2013. The one year forecast predicts yields to be anywhere from 0.45% - 0.58% higher in maturities greater than 10-years where as in the short-end where we could see rates higher by +0.07% - 0.62%

Scotia Economics Interest Rate Forecast									
	12/31/2012	13 Q1 f	13 Q2 f	13 Q3 f	13 Q4 f	14 Q1 f	14 Q2 f	14 Q3 f	14 Q4 f
Canada									
BoC Overnight Target Rate	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Prime Rate	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
3-month T-bill	0.93%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.10%
2-year Canada	1.14%	1.10%	1.10%	1.20%	1.40%	1.65%	1.85%	2.05%	2.30%
5-year Canada	1.38%	1.50%	1.45%	1.75%	2.00%	2.30%	2.55%	2.75%	2.95%
10-year Canada	1.80%	1.85%	1.80%	2.10%	2.25%	2.60%	2.90%	3.10%	3.35%
30-year Canada	2.37%	2.55%	2.45%	2.75%	2.95%	3.30%	3.45%	3.60%	3.65%

Source: Scotia Capital. (01/31/13)

Interest Rate Movement

On a year-over-year basis, the Government of Canada yield curve flattened in shape as we saw yields move higher in the short dated securities and lower in longer dated securities. In the long-end of the curve (> 10-year maturities) yields moved lower by -0.13 – 0.16%. This move in the long-end was a positive contributor to the performance of both the straight perpetual preferred shares and the long dated corporate bonds (+9.48%). In the short-end (less than 5 years) yields moved higher by +0.08 - +0.19% corresponding with the notion that absolute yields were extremely low and investors were moving into longer dated paper to achieve desired returns.



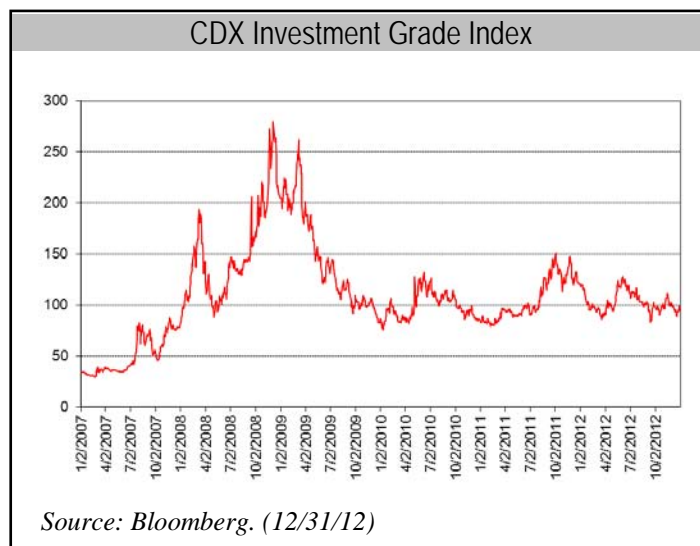
Overall, yields remaining at extremely low levels throughout the year have helped the performance of the preferred share market as investors began searching for alternative investment ideas to generate a higher return within their portfolio. Over the next year, the fate of interest rates will depend on the state of the global economy. With this in mind, the preferred share market is expected to continue to deliver a return in the form of dividend income with limited price appreciation. However, given global economic stability, rising interest rates will pursue, putting downward pressure on the price of preferred shares.

Credit Spreads

The widening or tightening of credit spreads is also a key factor that has the potential to affect the preferred share market. Credit spreads can be defined as the yield pick-up over the relevant benchmark Government bond and are representative of investors' risk appetite. One measure of credit spreads, in general, is the Credit Default Swap (CDX) index. This index is made up of 125 investment grade corporate bond names and has become a popular measure of the market's risk appetite. This index essentially represents the cost of insuring this basket against default.

As seen in the graph, the CDX Index moved lower year-over-year as it started 2012 at 1.20% and finished the year at 0.94% which represents the overall theme of narrowing credit spreads driven by increased risk appetite globally.

Looking ahead, a stronger economy and hence higher yields should allow credit spreads to tighten further which would offset some of the effects of the rise in interest rates.



Implications of Regulatory Changes (Basel III)

Following the financial crisis, regulators have created a new internal framework which is referred to as “Basel III”. Basel III includes new capital guidelines to help protect against any future economic or financial crisis. The new rules require institutions to meet minimum requirements to ensure all regulatory capital, and not just common equity, have mechanisms to absorb losses in the event the entity should become non-viable. These new requirements apply to banks, and have changed the criteria for Tier 1 Capital instruments (which includes preferred shares).

Going forward, in order to qualify as Tier 1 Capital on a bank's balance sheet a preferred share must include the following criteria:

- Perpetual in nature with no incentive for the company to redeem;
- Features that allows the regulators to force conversion into common shares in certain circumstances

It is expected that OSFI will not convert these securities if it felt that the firm could be not saved with the conversion. Furthermore, upon conversion the capital security holders will essentially own a major portion of the firm, and that the restructured entity will be strong enough to continue to exist as a going concern.

Due to these changes we have seen limited Canadian bank preferred share issuance since 2011. However, it is still expected that the banks will continue to use preferred shares as a form of financing once they have agreed upon a product that will be both compliant with the regulators and attractive to investors.

Existing bank preferred shares (except CM.PR.D, E, G & possibly the RY.PR.W – would require OSFI approval) will have their capital treatment phased out over a 10-year period (2013 – 2022). Therefore, it is expected that by January 1, 2022 the banks will have redeemed the majority of their outstanding preferred shares.

Existing Bank Rate Resets: The higher the reset spread the higher the probability of the security being redeemed at the first reset date. Whether or not a bank redeems its rate reset at the reset date will depend on current market credit spreads as well as the company's Tier 1 Capital capacity. Based on current market conditions, credit spreads on a bank 5-year rate reset are approximately 2.10%. Therefore, those securities with a reset spread lower than 2.10% would be cheap financing for a company and have the potential of being extended. It is important to remember that credit spreads are a moving target and a redemption versus extension decision depends on the individual company's situation. It is anticipated that some of the upcoming 2013 rate resets will get extended to 2018 as it would be in the issuers best interest to extend and redeem a high dividend paying fixed perpetual structure instead. This extension would still be compliant with Basel III, as existing bank preferred shares are being phased out over a 10 year period.

Existing Bank Fixed Rate Perpetuals: (excluding CM.PR.D, E, G & RY.PR.W) It is expected that the issuer will redeem those securities with the highest dividend first and work to the lower dividend paying perpetuals as long as it still makes sense for the company to redeem the securities. In essence, each Canadian bank will play a balancing act to determine which securities are in their best interest to leave outstanding and which securities would be the most beneficial to redeem during each year of the phase-out period.

These regulatory changes will change the face of the preferred share market and there is also the potential that life insurance companies become regulated under a similar framework. Investors should become aware of their bank preferred share holdings and determine their capital eligibility. Additionally, watch for new issuance this year that will most likely be a rate-reset structure and include the new conversion to common stock feature in the prospectus.

Rating Changes

There have been a number of credit rating and outlook changes over the past year with more downgrades than upgrades. At the end of the year, S&P downgraded some of the ratings of the banks (Bank of Nova Scotia, Bank of Montreal, CIBC, Laurentian Bank) and changed the outlook to Stable from Negative. S&P noted the banks being under pressure from headwinds in the Canadian economy, increasing bank industry risk and pressure on profitability from competition as reasons for the downgrades. The market was little impacted following these downgrades.

Please refer to the tables below for all the rating changes and outlook changes throughout 2012.

Rating Changes in 2012							
Issuer	Symbol	Type	Rating Agency	Date Changed	New Rating	Old Rating	Current Outlook
Bank of Montreal	BMO.PR.	Various	S&P	13-Dec-12	P-2	P-2 (H)	Stable
Bank of Nova Scotia	BNS.PR.	Various	S&P	13-Dec-12	P-2 (H)	P-1 (L)	Stable
Bell Aliant	BAF.PR.A,C	Reset	DBRS	11-Sep-12	Pfd-3	Pfd-3H	Stable
Brompton Lifeco Split Corp	LCS.PR.A	Split	DBRS	20-Mar-12	Pfd-4L	Pfd-4H	N/A
Brompton Lifeco Split Corp	LSC.PR.A	Split	DBRS	25-Oct-12	Pfd-5H	Pfd-4L	
Canadian Western Bank	CWB.PR.A	Reset	DBRS	7-Dec-12	Pfd-3H	N/A	Stable
Capital Power Corp	CPX.PR.A	Reset	S&P	16-Nov-12	P-3	P-3 (H)	Stable
Capstone Infrastructure Corp.	CSE.PR.A	Reset	S&P	5-Apr-12	P-4 (H)	P-3	Stable
CIBC	CM.PR	Various	S&P	13-Dec-12	P-2	P-2 (H)	Stable
Financial 15 Split Corp II	FFN.PR.A	Split	DBRS	15-May-12	Pfd-4H	Pfd-3L	
Laurentian Bank	LB.PR	Various	S&P	13-Dec-12	P-3 (H)	P-2 (L)	Stable
Prime Dividend Corp	PDV.PR.A	Split	DBRS	20-Jul-12	Pfd-3	Pfd-3H	N/A
SL Split Corp	SLS.PR.A	Split	DBRS	24-Jan-12	Pfd-5	Pfd-4L	
TD Split Corp	TDS.PR.C	Split	DBRS	18-Oct-12	Pfd-2	Pfd-2L	
TransAlta Corp	TA.PR.D,F, H	Reset	S&P	1-Aug-12	P-3	P-3 (H)	Stable
Transcontinental Inc.	TCL.PR.D	Reset	DBRS	12-Sep-12	Pfd-3	Pfd-3H	Negative
Yellow Media Inc.	YLO.PR.A, B, C, D	Retract/Reset	DBRS	13-Feb-12	Pfd-5L	Pfd-4L	Negative
Yellow Media Inc.	YLO.PR.A, B, C, D	Retract/Reset	DBRS	2-Oct-12	D	Pfd-5L	Negative
Yellow Media Inc.	YLO.PR.A, B, C, D	Retract/Reset	DBRS	20-Dec-12	Not Rated	D	
Yellow Media Inc.	YLO.PR.A, B, C, D	Retract/Reset	S&P	15-Feb-12	C	P-4 (L)	Negative
Yellow Media Inc.	YLO.PR.A, B, C, D	Retract/Reset	S&P	31-Mar-12	Not Rated	C	

Source: DBRS, Standard & Poors.

Outlook Changes in 2012							
Issuer	Symbol	Type	Rating Agency	Date Changed	Rating	Old Outlook	Current Outlook
Bell Aliant	BAF.PR.A, C	Reset	DBRS	2-Aug-12	Pfd-3H	Under Review	Negative
Brookfield Asset Management	BAM.PR.	Retract/Reset/Perp	S&P	29-Feb-12	P-2	Stable	Negative
Brookfield Office Properties	BPO.PR.	All	S&P	29-Jun-12	P-3 (H)	Stable	Negative
Brookfield Office Properties	BPO.PR.	All	DBRS	18-Oct-12	Pfd-3H	Stable	Negative
Co-operators Financial Services	CCS.PR.C, D	Reset/Perp	S&P	17-Oct-12	P-2 (L)	Stable	Positive
Emera Inc	EMA.PR.A	Reset	DBRS	3-Apr-12	Pfd-3H	Stable	Negative
Emera Inc	EMA.PR.A	Reset	S&P	2-Apr-12	P-2 (L)	Stable	Negative
Emera Inc	EMA.PR.A, C	Reset	DBRS	14-Dec-12	Pfd-3H	Negative	Stable
Fortis Inc	FTS.PR.C, E, G, H, F	Retract/Reset/Perp	S&P	23-May-12	P-2	Negative	Stable
GMP Capital Inc	GMP.PR.B	Reset	DBRS	16-Nov-12	Pfd-3L	Stable	Negative
HSBC Bank Canada	HSB.PR.C, D, E	Perp/Reset	DBRS	20-Jul-12	Pfd-2H	Under Review	Negative
HSBC Bank of Canada	HSB.PR.C, D, E	Perp/Reset	S&P	23-Aug-12	P-1 (L)	Stable	Negative
Industrial Alliance	IAG.PR.A, C, E, F, G	Reset/Perp	S&P	19-Jun-12	P-1 (L)	Stable	Negative
Industrial Alliance	IAG.PR.A, C, E, F, G	Reset/Perp	DBRS	15-Jun-12	Pfd-2H	CreditWatch	Negative
Industrial Alliance	IAG.PR.A, C, E, F, G	Reset/Perp	DBRS	7-Sep-12	Pfd-2H	Stable	Negative
Laurentian Bank	LB.PR.D,E,F	Reset/Perp	DBRS	9-Oct-12	Pfd-3L	Stable	Positive
Nexen Inc.	NXV.PR.A	Reset	DBRS	23-Jul-12	Pfd-3	CreditWatch	Positive
Nexen Inc.	NXV.PR.A	Reset	S&P	23-Jul-12	P-3	CreditWatch	Positive
RONA Inc	RON.PR.A	Reset	S&P	31-Jul-12	P-3	CreditWatch	Positive
RONA Inc	RON.PR.A	Reset	S&P	19-Sep-12	P-3	Stable	Negative
SunLife Financial Inc	SLF.PR.	Reset/Perp	S&P	24-Feb-12	P-2 (H)	Stable	Negative
SunLife Financial Inc	SLF.PR	Reset/Perp	DBRS	7-Sep-12	Pfd-1L	Under Review	Negative
Thomson Reuters	TRI.PR.B	Floating	S&P	23-May-12	P-2	Stable	Negative
TransAlta Corp	TA.PR.D,F	Reset	DBRS	23-Jul-12	Pfd-3	Under Review	Negative
Transcontinental Inc	TCL.PR.D	Reset	DBRS	20-Apr-12	Pfd-3H	Stable	Negative
Transcontinental Inc	TCL.PR.D	Reset	DBRS	19-Jul-12	Pfd-3H	Under Review	Negative
Yellow Media Inc	YLO.PR.A, B, C, D	Retract/Reset	DBRS	23-Jul-12	Pfd-5L	Under Review	Negative

Source: DBRS, Standard & Poors.

New Issuance

Total preferred share new issuance was over \$9.3 billion during 2012 which is an annual increase of 39% compared to the preferred share issuance experienced in 2011. It was the non-financial issuers contributing to the growth of issuance as they used the preferred share market as a means of financing, contributing to approximately 70% of the new issuance throughout the year. This magnitude of non-financial issuance is much larger than we have seen in the past few years, as illustrated in the graph on the following page. Issuance by financial institutions totalled approximately \$2.79 billion, which is similar to the value seen the year prior (\$2.74 billion). With respect to credit quality, 75% of the issuance in 2012 was considered investment grade while 25% was non-investment grade.

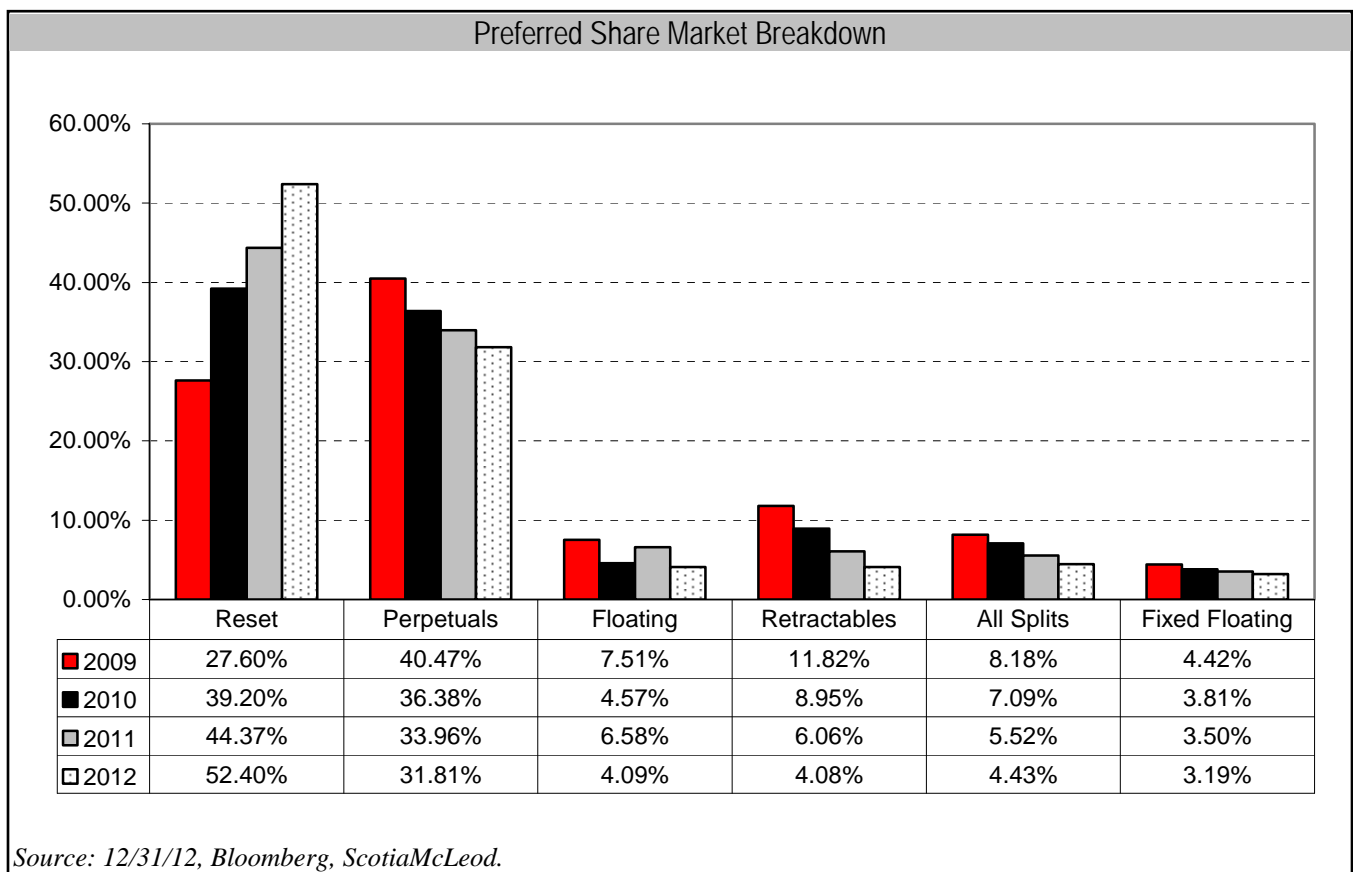
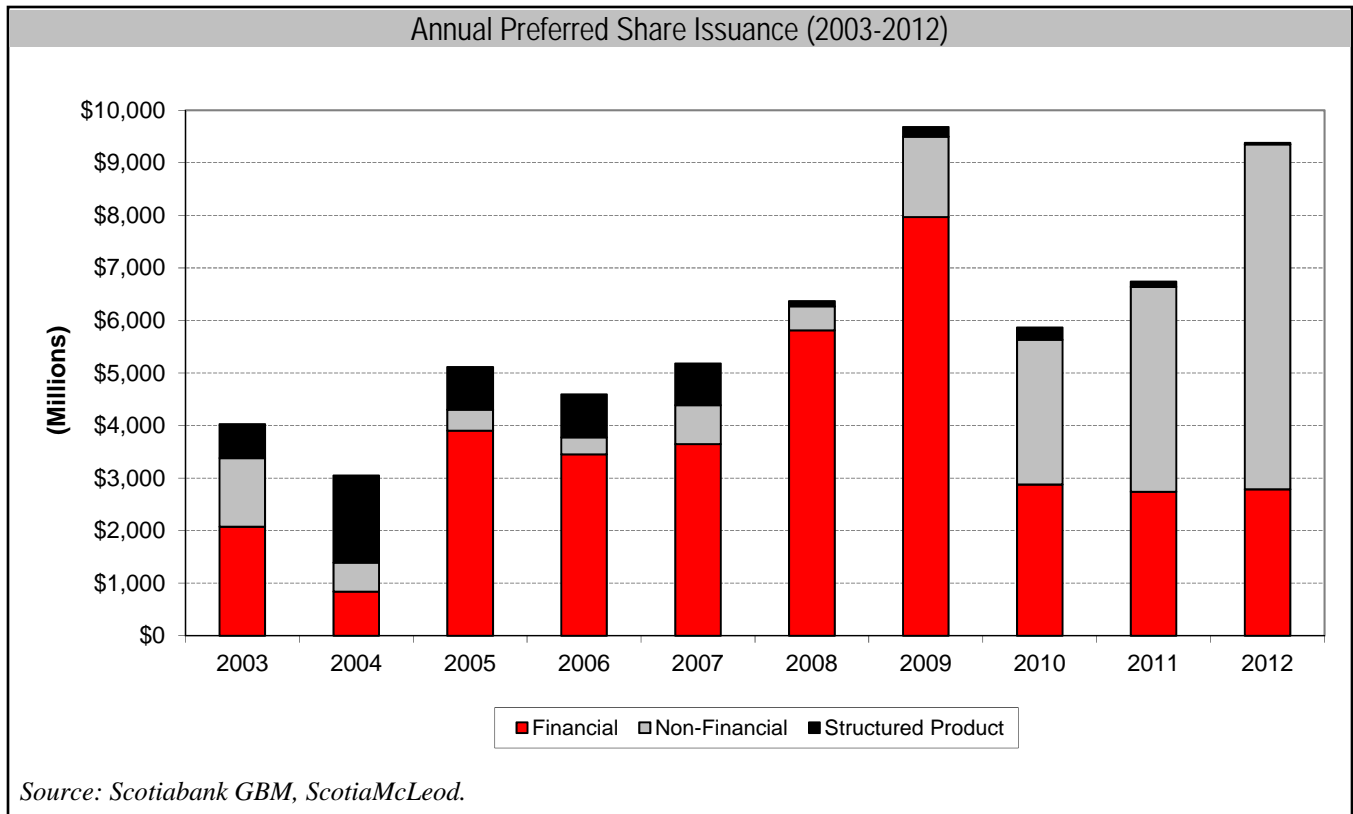
The rate reset perpetual preferred shares continue to be the most popular type of issue and represented 78% of the new issue market in 2012. Among these new issues the average reset spread is Government of Canada bond yield + 3.12%. However, we did see 10 new fixed rate perpetual issues making up 19% of the issuance seen over the year. With interest rates remaining in a low range issuers were able to lock in cheap financing indefinitely and investors were compensated with an attractive dividend amid other low yielding fixed income options.

Laurentian Bank surprised the market in October by issuing \$100 million of a rate reset preferred share ahead of the 2013 Basel III start date, when the market had not seen bank issuance since March 2011. National Bank of Canada also jumped on board and was able to issue \$200 million of a rate reset with an initial dividend rate of 3.80%. By National Bank of Canada issuing this security, they were able to boost their initial Tier 1 Capital level (January 1, 2013) and have since redeemed one of their perpetual securities which was paying a much higher dividend rate (5.80%). Due to the upcoming regulatory changes most banks have been quiet with respect to new issues as banks await further clarity regarding a structure that will be eligible as Tier 1 capital under Basel III and a structure which is also acceptable to the market.

Rate reset perpetual preferred shares which only originated in 2008, now contribute to more than half (52.4%) of the Canadian preferred share market. Fixed rate perpetuals which 3-years ago accounted for 40% of the market now only make up 31.8% of the Canadian preferred share market. The complete breakdown of the types of preferred shares within the market can be seen in the graph on the following page.

Overall, demand for new issue rate reset perpetual preferred shares was very dependant on the name of the issuer and the reset spread offered. Taking advantage of the lack of financial issuance there have been new issuers with no outstanding preferred shares in the market, such as Nexen Inc., Versen Inc., Valener Energy Co., Artis REIT, Birchcliff Energy Ltd. & Algonquin Power that issued preferred shares for their financing needs for the first time.

Looking forward, the new issue market in 2013 is expected to remain active with non-financial issuers continuing to use the preferred share market as a means of financing. Additionally, a new form of Basel III compliant bank preferred share will likely be issued to replace those being redeemed.



Preferred Share Issuance in 2012

Issue	Symbol	DBRS	S&P	Type	Date	(\$M)	Price	Distribution	Distribution	Yield	Rate
BCE Inc. Ser AK	BCE.PR.K	Pfd-3H	P-2 (L)	Reset	1/4/2012	\$280	\$25.00	Dividend	\$1.04	4.16%	5-yr CAN + 1.88%
Enbridge Inc. Ser F	ENB.PR.F	Pfd-2L	P-2	Reset	1/18/2012	\$500	\$25.00	Dividend	\$1.000	4.00%	5-yr CAN + 2.51%
Veresen Inc. Ser A	VSN.PR.A	Pfd-3H	P-3 (H)	Reset	2/14/2012	\$200	\$25.00	Dividend	\$1.100	4.40%	5-yr CAN + 2.92%
Great-West Lifeco Inc Ser P	GWO.PR.P	Pfd-1L	P-1 (L)	Perpetual	2/22/2012	\$250	\$25.00	Dividend	\$1.350	5.40%	N/A
Power Financial Corp Ser R	PWF.PR.R	Pfd-1L	P-1 (L)	Perpetual	2/23/2012	\$250	\$25.00	Dividend	\$1.375	5.50%	N/A
Manulife Financial Corp Ser 7	MFC.PR.H	Pfd-2H	P-2	Reset	2/22/2012	\$250	\$25.00	Dividend	\$1.150	4.60%	5-yr CAN + 3.13%
Power Corp Ser G	POW.PR.G	Pfd-2H	P-2 (H)	Perpetual	2/28/2012	\$200	\$25.00	Dividend	\$1.400	5.60%	N/A
Nexen Inc Ser 2	NXY.PR.A	Pfd-3	P-3	Reset	3/7/2012	\$200	\$25.00	Dividend	\$1.250	5.00%	5-yr CAN + 3.59%
Brookfield Asset Mgmt Ser 32	BAM.PF.A	Pfd-2L	P-2	Reset	3/13/2012	\$300	\$25.00	Dividend	\$1.125	4.50%	5-yr CAN + 2.90%
E-L Financial Corp Ser 3	ELF.PR.H	N/A	P-2 (H)	Perpetual	4/2/2012	\$100	\$25.00	Dividend	\$1.375	5.50%	N/A
Fairfax Financial Holdings Ltd Ser K	FFH.PR.K	Pfd-3	P-3	Reset	3/21/2012	\$238	\$25.00	Dividend	\$1.250	5.00%	5-yr CAN + 3.51%
Enbridge Inc. Ser H	ENB.PR.H	Pfd-2L	P-2	Reset	3/29/2012	\$350	\$25.00	Dividend	\$1.000	4.00%	5-yr CAN + 2.12%
Canaccord Financial Inc. Ser C	CF.PR.C	Pfd-3L	N/A	Reset	4/10/2012	\$100	\$25.00	Dividend	\$1.438	5.75%	5-yr CAN + 4.03%
Enbridge Inc. Ser J \$U	ENB.PR.U	Pfd-2L	P-2	Reset	4/16/2012	\$201	\$25.00	Dividend	\$1.000	4.00%	5-yr US + 3.05%
Enbridge Inc. Ser L \$U	ENB.PF.U	Pfd-2L	P-2	Reset	5/26/2012	\$400	\$25.00	Dividend	\$1.000	4.00%	5-yr US + 3.15%
Northland Power Inc. Ser 3	NPI.PR.C	N/A	P-3	Reset	5/24/2012	\$120	\$25.00	Dividend	\$1.250	5.00%	5-yr CAN + 3.46%
Manulife Financial Corp Ser 9	MFC.PR.I	Pfd-2H	P-2	Reset	5/24/2012	\$250	\$25.00	Dividend	\$1.100	4.40%	5-yr CAN + 2.86%
Valener Energy Company Ser A	VNR.PR.A	Pfd-2L	P-2 (L)	Reset	6/6/2012	\$100	\$25.00	Dividend	\$1.088	4.35%	5-yr CAN + 2.81%
Industrial Alliance Inc Ser G	IAG.PR.G	Pfd-2H	P-1 (L)	Reset	6/1/2012	\$150	\$25.00	Dividend	\$1.075	4.30%	5-yr CAN + 2.85%
Emera Inc Ser C	EMA.PR.C	Pfd-3H	P-2 (L)	Reset	6/7/2012	\$250	\$25.00	Dividend	\$1.025	4.10%	5-yr CAN + 2.65%
AltaGas Ltd. Ser C \$U	ALA.PR.U	Pfd-3	P-3 (H)	Reset	6/6/2012	\$205	\$25.00	Dividend	\$1.100	4.40%	5-yr US + 3.58%
Canadian Utilities Ltd. Ser AA	CU.PR.D	Pfd-2H	P-2 (H)	Reset	6/18/2012	\$150	\$25.00	Dividend	\$1.225	4.90%	N/A
Industrial Alliance Inc Ser G	IAG.PR.G	Pfd-2H	P-1 (L)	Reset	6/28/2012	\$100	\$25.00	Dividend	\$1.075	4.36%	5-yr CAN + 2.85%
Canadian Utilities Ltd. Ser BB	CU.PR.E	Pfd-2H	P-2 (H)	Perpetual	7/5/2012	\$150	\$25.00	Dividend	\$1.225	4.90%	N/A
Great-West Lifeco Inc Ser Q	GWO.PR.Q	Pfd-1L	P-1 (L)	Perpetual	7/6/2012	\$200	\$25.00	Dividend	\$1.288	5.15%	N/A
Enbridge Inc. Ser N	ENB.PR.N	Pfd-2L	P-2	Reset	7/17/2012	\$450	\$25.00	Dividend	\$1.000	4.00%	5-yr CAN + 2.65%
Artis REIT Ser A	AX.PR.A	N/A	N/A	Reset-Trust	8/2/2012	\$86	\$25.00	Interest/ROC	\$1.313	5.25%	5-yr CAN + 4.06%
Birchcliff Energy Ltd Ser A	BIR.PR.A	N/A	N/A	Reset	8/8/2012	\$50	\$25.00	Dividend	\$2.000	8.00%	5-yr CAN + 6.83%
TransAlta Corp Ser E	TA.PR.H	Pfd-3	P-3	Reset	8/10/2012	\$225	\$25.00	Dividend	\$1.250	5.00%	5-yr CAN + 3.65%
Brookfield Asset Mgmt Ser 34	BAM.PF.B	Pfd-2L	P-2	Reset	9/12/2012	\$250	\$25.00	Dividend	\$1.050	4.20%	5-yr CAN + 2.63%
Enbridge Inc Ser P	ENB.PR.P	Pfd-2L	P-2	Reset	9/13/2012	\$400	\$25.00	Dividend	\$1.000	4.00%	5-yr CAN + 2.50%
Brookfield Office Properties Ser T	BPO.PR.T	Pfd-3H	P-3 (H)	Reset	9/13/2012	\$250	\$25.00	Dividend	\$1.150	4.60%	5-yr CAN + 3.16%
Artis REIT Ser C US	AX.PR.U	N/A	N/A	Reset-Trust	9/18/2012	\$73	\$25.00	Interest/ROC	\$1.313	5.25%	5-yr CAN + 4.46%
Brookfield Renewable Power Ser 3	BRF.PR.C	Pfd-3H	P-3 (H)	Reset	10/11/2012	\$250	\$25.00	Dividend	\$1.100	4.40%	5-yr CAN + 2.94%
Great-West Lifeco Ser R	GWO.PR.R	Pfd-1L	P-1L	Perpetual	10/11/2012	\$200	\$25.00	Dividend	\$1.200	4.80%	N/A
Laurentian Bank of Canada Ser 11	LB.PR.F	Pfd-3L	Pfd-2 (L)	Reset	10/18/2012	\$100	\$25.00	Dividend	\$1.000	4.00%	5-yr CAN + 2.60%
Algonquin Power & Utilities Ser A	AQN.PR.A	Pfd-3L	P-3	Reset	11/9/2012	\$120	\$25.00	Dividend	\$1.125	4.50%	5-yr CAN + 2.94%
National Bank of Canada Ser 28	NA.PR.Q	Pfd-2	P-2	Reset	11/7/2012	\$200	\$25.00	Dividend	\$0.950	3.80%	5-yr CAN + 2.43%
Fortis Inc Ser J	FTS.PR.J	Pfd-2L	P-2	Perpetual	11/13/2012	\$200	\$25.00	Dividend	\$1.188	4.75%	N/A
Brookfield Asset Mgmt Ser 36	BAM.PF.C	Pfd-2L	P-2	Perpetual	11/27/2012	\$200	\$25.00	Dividend	\$1.213	4.85%	N/A
Innervex Renewable Energy Ser C	INE.PR.C	Pfd-3L	P-3	Perpetual	12/11/2012	\$50	\$25.00	Dividend	\$1.438	5.75%	N/A
Enbridge Inc. Ser R	ENB.PR	Pfd-2L	P-2	Reset	12/5/2012	\$400	\$25.00	Dividend	\$1.000	4.00%	5-yr CAN + 2.50%
Manulife Financial Corp Ser 11	MFC.PR.J	Pfd-2H	P-2	Reset	12/4/2012	\$200	\$25.00	Dividend	\$1.000	4.00%	5-yr CAN + 2.61%
Capital Power Corp Ser 3	CPX.PR.C	Pfd-3L	P-3	Reset	12/18/2012	\$150	\$25.00	Dividend	\$1.150	4.60%	5-yr CAN + 3.23%
						\$9,347		Average		4.71%	5-yr CAN + 3.12%
R Split III Corp Ser 1	RBS.PR.B	Pfd-2L	N/A	Split	5/31/2012	\$16.8	\$13.60	Dividend	\$0.578	4.25%	N/A
Brompton Split Banc Corp	SBC.PR.B	Pfd-3H	N/A	Split	11/13/2012	\$13	\$10.25	Dividend	\$0.450	4.25%	N/A

Source: Bloomberg, ScotiaMcLeod.

Preferred Shares Redeemed and New Issues (Annually)

Year	Redemptions	New Issues	Difference
2003	\$4,014,161,937	\$4,027,960,595	\$13,798,658
2004	\$4,914,862,381	\$3,040,919,193	-\$1,873,943,188
2005	\$3,426,809,260	\$5,198,672,525	\$1,771,863,265
2006	\$2,429,103,077	\$4,639,959,734	\$2,210,856,657
2007	\$3,019,845,298	\$4,990,931,691	\$1,971,086,393
2008	\$997,562,364	\$6,490,810,594	\$5,493,248,230
2009	\$1,164,855,822	\$9,683,344,111	\$8,518,488,289
2010	\$1,758,879,452	\$5,812,308,503	\$4,053,429,051
2011	\$2,112,857,525	\$6,737,271,800	\$4,624,414,275
2012	\$2,481,183,599	\$9,377,450,733	\$6,896,267,134
TOTAL '03-'12	\$26,320,120,715	\$59,999,629,478	\$33,679,508,763
Average	\$2,632,012,072	\$5,999,962,948	

Source: ScotiaMcLeod.

Investing in Preferred Shares

Advantages

- **Tax Advantaged Investment Income.** The main reason to invest in preferred shares is for investment income. Preferred shares may pay higher dividends than common shares and dividend income provided to investors is treated favorably from a tax perspective relative to other forms of income. Therefore, preferred shares are often able to offer a better after-tax yield than bonds of similar credit quality and risk.

Dividends received by Canadian residents from Canadian corporations are taxed at a lower rate than interest income due to the dividend tax credit, which recognizes that a dividend is paid from the after-tax earnings of the corporation. Using the most recent proposed 2013 Ontario tax rates, an investor in the \$134,000 - \$509,000 income tax bracket pays 46.41% tax on interest income and 29.54% on dividend income. Hence, the lower tax rate applied to dividends provides a significant advantage. After tax, an investor would retain \$70.46 from \$100.00 in dividends, but only \$53.59 from interest income. Therefore, an investor would need approximately \$1.31 ($\$70.46/\53.59) of interest income to equal \$1.00 of dividend income before taxes are paid. This difference in the amount of income required before taxes is described as a “pre-tax interest equivalent” amount. This can be calculated by multiplying the amount of dividend income by a factor (1.31 in the case of Ontario) that takes into account the different tax rates for dividends and interest. A table of pre-tax interest equivalent multipliers for each province can be found in Appendix II.

- **Security of Principal.** Greater security of principal may also motivate investors to invest in preferred shares as they rank above the interests of common shareholders, both in their seniority to receive dividend payments and their higher ranking in the distribution of assets if a company is liquidated. However, preferred shares rank below all other forms of debt.
- **Priority of Dividends.** Preferred shares’ dividend payments can also be “cumulative”, which means that dividends accrue to the holder of the preferred share if the issuer misses a payment. The issuer must pay the missed dividend before any dividends are paid on common shares. Additionally, in order for an issuer to suspend the dividend payment on the preferred shares they must first suspend all dividend payments for the common shareholders.
- **Exchange Traded Markets.** Unlike bonds, preferred shares trade on public exchanges where the bid and ask prices are visible to all market participants. This is an advantage for investors as it provides greater transparency in pricing.

Risks

The risks of investing in preferred shares include interest rate risk, credit risk, call/extension risk, liquidity risk, and the risk of tax law changes that may impact the tax advantaged status of dividend income.

- **Interest Rate Risk.** Preferred shares are income investments that are impacted by changes in the level of interest rates. There is an inverse relationship between interest rates and the price of preferred shares - i.e. as interest rates rise, prices fall. The amount of the price change due to a change in interest rates is related to both the term to redemption and the dividend rate. In general, the longer the term, and the lower the dividend rate, the greater the interest rate risk. Investors in term preferred shares (i.e. those with a fixed maturity date) will lock in a rate of return upon the purchase of a preferred share but will be subject to reinvestment risk on dividends earned and principal repayment. Investors in straight perpetual preferred shares are exposed to a greater degree of interest rate risk due to the fact that these preferred shares lack a maturity date and are structured to pay a fixed dividend in perpetuity to the holder.

- **Credit Risk.** Credit risk involves any change in the creditworthiness of the preferred share issuer. The creditworthiness of an issuer refers to its general financial strength, including its ability to pay dividends and repay principal on maturity. The credit quality of preferred shares in Canada is monitored by two independent credit rating agencies: Dominion Bond Rating Service (DBRS), and Standard & Poor's (S&P). Investors can consult these two agencies to assess the credit risk of investing in the preferred shares of an individual company. Credit risk is also apparent in credit spreads (yield pick-up over Government of Canada bonds). Preferred shares which have a longer term (perpetuals) will be impacted to a greater extent by credit spreads than those which have a short term to redemption. Credit spreads have the same impact as interest rates - i.e. widening credit spreads, increases yield, and depressed the price of preferred shares.
- **Call Risk.** Many preferred shares have a redemption feature built in where the issuer can redeem all or part of the issue. This is a disadvantage to the investor as the redemption will only occur if it is advantageous for the issuer. Preferred share redemptions typically occur in a declining rate environment when it is cost effective for the issuer to redeem a preferred share which has a high dividend rate. However, factors such as refinancing options of the issuer, size of the issue, regulatory changes and current market conditions also impact the issuers' decision to redeem outstanding preferred shares.
- **Extension Risk.** Although preferred share which lack a maturity date have an initial call date the issuer has ability to keep the security outstanding in the market and continuing paying the dividend. Holders should not expect a security to be redeemed at an upcoming call date as redemption versus extension will depend on the company's individual situation and financing needs.
- **Liquidity Risk.** This risk arises from the difficulty of selling preferred shares in the secondary market due to the lack of liquidity relative to most bonds and common equity. Liquidity risk can be measured by size of the spread between the bid and the offer price - i.e. wider spreads increase the risk.
- **Tax Risk.** One of the attractive features of preferred shares is the lower rate of tax applied to dividend income compared to interest income. The relative attractiveness of this feature depends on the investors' marginal tax bracket and their province of residence. Changes to provincial or federal tax rates may affect the attractiveness of preferred shares relative to fixed income investments. In general, for investors in lower tax brackets, dividend income becomes less attractive relative to interest income (on an after-tax basis).

Incorporating Preferred Shares Within a Portfolio

Preferred shares can differ dramatically depending on their structure, yield, term, and credit quality. When incorporating preferred shares into a portfolio an investor needs to consider a number of factors in order to determine whether a particular preferred share is an appropriate investment. Using the guidelines set out in an Investment Policy Statement is a perfect starting point as it spells out an investor's investment philosophy, asset allocation targets, and expected results.

Return Objectives. It is important to consider the return requirement that the investor is anticipating, when purchasing fixed income products. An investor must also evaluate the various income products available and choose a product which generates an adequate return for the investor. There are two components of investment return from a preferred share: dividend income and capital gains (or losses). The current yield of a preferred share is calculated by dividing the dividend by the purchase price. However, simply looking at current yield can be misleading as it does not account for the accrued dividends or any potential capital gains or losses. If the investor is purchasing the preferred share at a discount (or premium) to its par value, then there is a capital gain (or loss) that if included in the yield calculation gives a more precise return estimate. The most accurate measure of yield for preferred shares is the bond equivalent yield, which provides an all-in rate of return based on purchase price, dividend payments, lower tax rates on dividend income, and the redemption value. The bond equivalent yield is then compared to bonds of similar term to provide a gauge of relative value. The greater the difference (spread) between the preferred share yield and the yield on Government of Canada bonds of similar term, the greater the incentive for the investor to purchase preferred share rather than Government paper.

Risk Tolerance. In order for an investor to achieve their required return, the risk inherent in purchasing a preferred share must also be assessed. Credit ratings are often used to gauge the issuers' ability to consistently pay dividends and repay principal. Preferred share credit ratings vary from P-1 (highest quality) to P-5 (lowest quality). Preferred shares are considered "investment grade" if they are rated P-2 (low) or higher. Conservative investors may wish to limit their preferred share investments to investment grade preferred shares. More risk tolerant preferred share investors may consider non-investment grade preferred shares to take advantage of higher yields provided they are fully aware of the greater risk.

Investor Constraints:

- **Time Horizon** - Given that most investors consider preferred shares for current income, the length of time a preferred share will be outstanding in the market and paying dividends is an important consideration. If the investor has a definitive time horizon, retractables and split shares should be the preferred shares of choice as these have a maturity date and investors can predict their cash flows accordingly. Additionally, the advantage of shorter maturities is that they exhibit less sensitivity to fluctuations in interest rates. The disadvantage is that they require more frequent reinvestment of principal. For investors who are comfortable lending their money indefinitely there are various types of perpetual preferred shares which offer investors an income stream without a definitive maturity date. Straight perpetual preferred shares pay a fixed dividend and have no maturity date. Rate reset/fixed-floating and floating rate preferred shares have a readjustment mechanism that resets the dividend rate periodically.

- **Liquidity Needs** – Determining whether the investor has ongoing liquidity needs will also influence the choices for preferred shares within a portfolio. Generally speaking, the preferred share market is less liquid than the common share market as issues are smaller in size and there are fewer investors. Therefore, if the investor may have upcoming liquidity needs it is recommended focusing on issues which have more than five million shares outstanding or two million shares outstanding in the split share space. However, each issue should be scrutinized over liquidity as it may change depending on market conditions. In addition, preferred shares which have a set retraction/maturity date may be more suitable for investors with future liquidity needs.
- **Tax Considerations** – An individual's tax rates must also be evaluated since the dividend income usually offers a beneficial tax treatment compared to interest income. The tax rates depend on investors' marginal tax bracket and their province of residence.

Diversification Principles

A diversified investment portfolio serves as a prerequisite to help limit risks and mitigate potential losses for investors. To properly diversify a portfolio, academic studies on the equity market have proven that holding 20 different securities provides an optimal level of diversification, although a diversification of at least 10 securities is considered ample. Therefore, in most cases, investors should avoid having an exposure of more than 10% in a single name within a preferred share portfolio.

Further studies have proven that with lower credit quality, a greater level of diversification is required to further mitigate the greater risks of default. An allocation to any security or issuer based on credit quality is further predicated upon an investor's risk tolerance. The following table highlights our recommended maximum allocation for broad investor risk categories in the Canadian preferred share market:

Diversification Principles			
	Pfd-1(H) - Pfd - 1(L)	Pfd-2(H) - Pfd-2(L)	< Pfd-3 (H)
Conservative	70%	30%	0%
Moderate	40%	40%	20%
Aggressive	20%	40%	40%

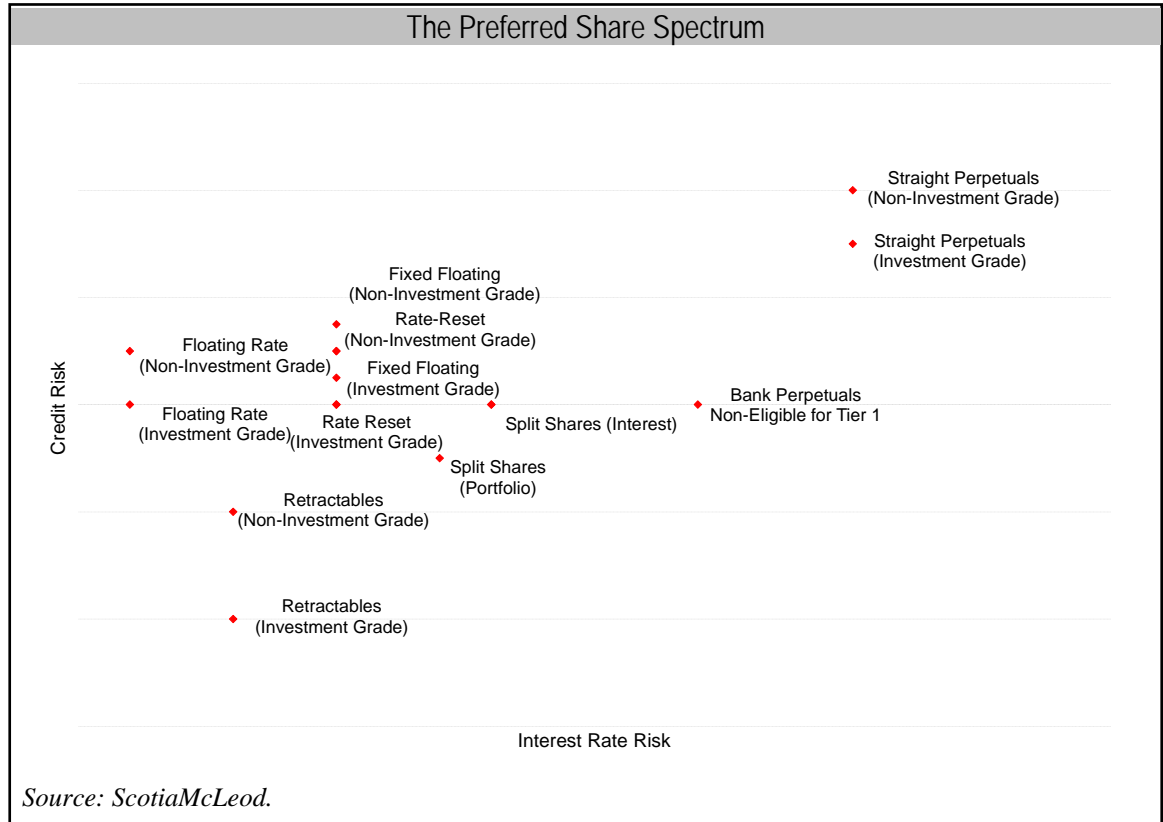
Source: ScotiaMcLeod.

The indicated percentage allocation approach is not an exact science, but is based on an attempt to ensure proper diversification. Other diversification principles to consider when constructing a conservative, preferred share portfolio include:

- Within the fixed-income portion of a portfolio, preferred shares should comprise approximately 20%, and no more than 50%, of the total fixed income portion of a portfolio.
- Exposure to fixed rate perpetual preferred shares should be limited to 10% of a portfolio for a conservative investor and no more than 35% of a portfolio for an aggressive investor.

The Range of Preferred Shares

Preferred shares vary depending on credit risk as well as interest rate risk. The chart below identifies the various types of preferred shares and their ranking with respect to interest rate risk and credit risk.



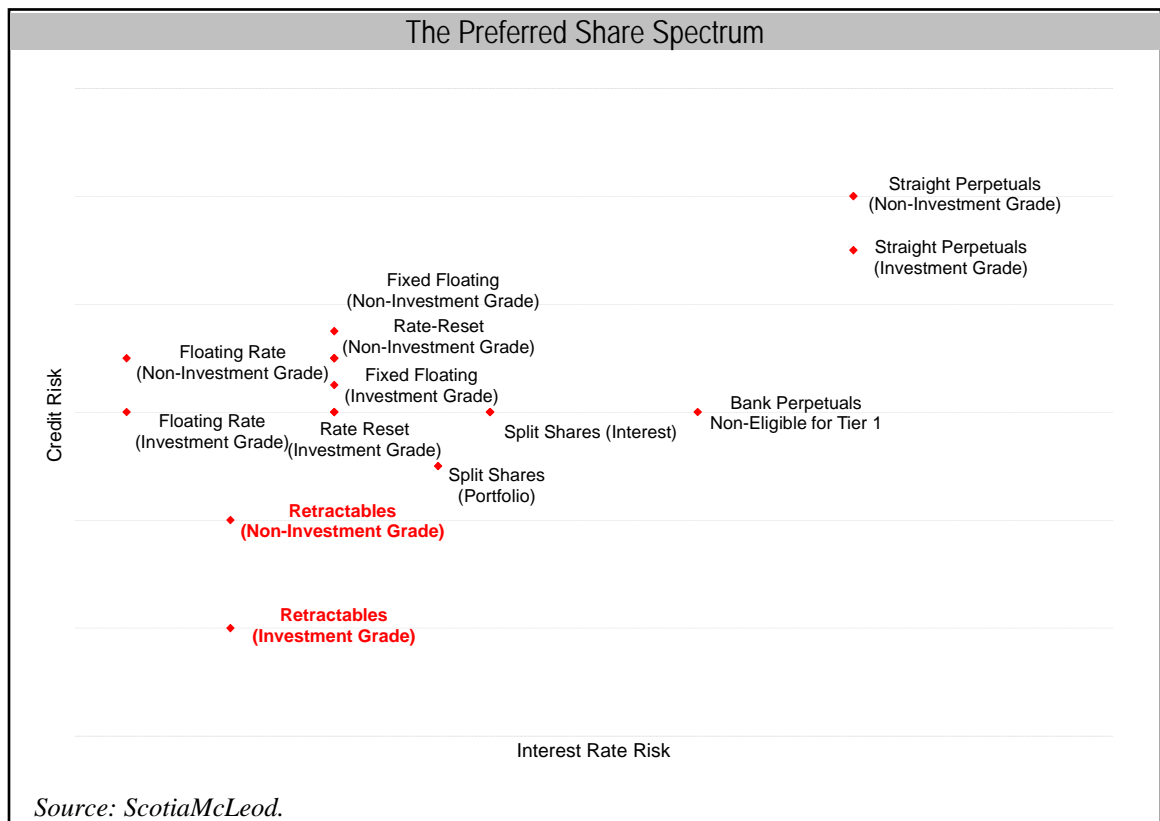
Credit Ratings

Since credit risk is a key characteristic when investing in preferred shares it is important to understand how the various credit ratings compare to bond ratings. The term “investment grade” refers to a preferred share issued by a company with strong credit quality and stable earnings that would be comparable to a bond rated ‘BBB-’ or higher. Investment grade preferred shares are designated a rating of P-1 or P-2 by major credit rating agencies such as Dominion Bond Rating Service (DBRS) or Standard & Poor’s (S&P). Companies with preferred credit ratings in the P-3(H) category or lower are considered “non-investment” grade by virtue of their weaker balance sheets and potentially volatile earnings. Non-investment grade preferred shares compare to bonds rated ‘BB+’ or lower by credit rating agencies. Below is a table which lists the various credit ratings and the equivalent bond rating.

Preferred Share Credit Ratings			
S&P Global Preferred Share Scale	S&P Preferred Share Scale	DBRS Preferred Share Scale	Quality
AA	P-1 (High)	Pfd-1 (high)	Superior
AA-	P-1	Pfd-1	
A+	P-1	Pfd-1	
A	P-1 (Low)	Pfd-1 (Low)	
A-	P-1 (Low)	Pfd-1 (Low)	
BBB+	P-2 (High)	Pfd-2 (High)	Satisfactory
BBB	P-2	Pfd-2	
BBB-	P-2 (Low)	Pfd-2 (Low)	
BB+	P-3 (High)	Pfd-3 (High)	Adequate
BB	P-3	Pfd-3	
BB-	P-3 (Low)	Pfd-3 (low)	Speculative
B+	P-4 (High)	Pfd-4 (High)	
B	P-4	Pfd-4	
B-	P-4 (Low)	Pfd-4 (Low)	
CCC+	P-5 (High)	Pfd-5 (High)	Highly Speculative
CCC	P-5	Pfd-5	
CCC-	P-5 (Low)	Pfd-5 (Low)	
CC	CC	Pfd-5 (Low)	
C+	C	Pfd-5 (Low)	
C	C	Pfd-5 (Low)	
C-	C	Pfd-5 (Low)	
D	D	D	In Arrears

Source: DBRS; S&P

Retractable Preferred Shares



Description: Retractable preferred shares include a feature that allows the holder to force the company to redeem the shares at par value on a specific date. Some issues are referred to as hard retractables - meaning the issuer must pay cash upon retraction. There are also soft retractables which give the issuer the option of repaying the par value in cash or in common shares. The flexible payment option can result in a stronger balance sheet for the issuer which may lead to a favourable rating from credit rating agencies. This optionality gives the issuer the right to pay the preferred retraction in stock instead of cash if it falls into financial hardship. In the past, most issuers have redeemed this type of preferred share for cash rather than common stock. Investment grade issuers, will more often redeem their preferreds for cash rather than issue new common stock which may dilute earnings per share. The retraction feature is considered very attractive by investors as these preferred shares have a definitive maturity date and investors can therefore estimate future cash flows. In addition, this is the type of preferred share which most closely resembles bonds.

Redemption: The issuer may redeem retractable preferred shares for cash or for common shares, depending on the terms of the issue, on/after the various redemption dates. The redemption date(s) may either be on or before the retraction date. Often, when there is a substantial amount of time between redemption and retraction dates, the early redemption price is at a premium that declines each year as the retraction date approaches.

Retraction: On this date the holder can force the issuer to pay the par value of the preferred share. With respect to soft retractables a payment in the form of common shares is typically at 95% of the weighted average trading range over the previous 20 days, subject to a minimum price. For example, an investor who holds 100 preferred shares with a \$25 par value and the average trading price for the common stock is \$50, will receive 0.526 ($\$25/0.95*\50) common shares for each preferred. This discount is intended to compensate the investor for the transaction costs of selling the shares in the secondary market and generating cash. The retraction date usually follows the redemption date by a number of days that is specific to each issue. If there is a substantial difference between the yield to redemption and yield to retraction, an investor should look at the lowest yield as it will be the most conservative return estimate.

Advantages: The advantages of holding retractable preferred shares pertain to the fact that these structures have a defined maturity date on which the investor is assured of a return of their principal. In addition, this type of preferred share is less interest rate sensitive as it has a shorter duration than those preferred shares which lack a maturity date.

Risks: The most prevalent risk is early call risk, as issuers usually have the ability to redeem these shares earlier than the retraction date forcing the investor to re-invest at prevailing market rates. Additionally, the value of any preferred share will vary with the general level of interest rates as prices will move inversely to interest rate movements.

What's New: This sector of the preferred share market is shrinking as many issuers are taking advantage of early call dates and redeeming outstanding preferred shares. During 2012, 20.1 million shares (worth \$504.3 million) retractable preferred shares were redeemed, all at par. Brookfield Asset Management redeemed two of its outstanding preferred shares (BAM.PR.H, I) and Brookfield Office Properties redeemed BPO.PR.I which had already passed its retraction date.

Of the retractable preferred shares still outstanding in the market many can be called at the issuers' option within 30 days notice at prices below where the securities are trading in the market. Based on the current low yield environment which enables issuers to call their retractable preferred shares and re-issue at a lower dividend rate it is likely that we will see additional retractable preferred shares being redeemed in the future.

Recommendations: At this time retractable preferred shares seem fairly expensive as most issues are now callable and the lowest yield (either yield to retraction or yield to worst call) is either negligible or negative. Therefore, the only retractable that could be considered for a portfolio is Brookfield Asset Management (BAM.PR.J) which has a yield to potential redemption (March 30, 2014) of 2.44%. Please note that these recommendations are time and price sensitive. Contact your ScotiaMcLeod advisor for a current list of recommendations.

Retractable Preferred Share Table

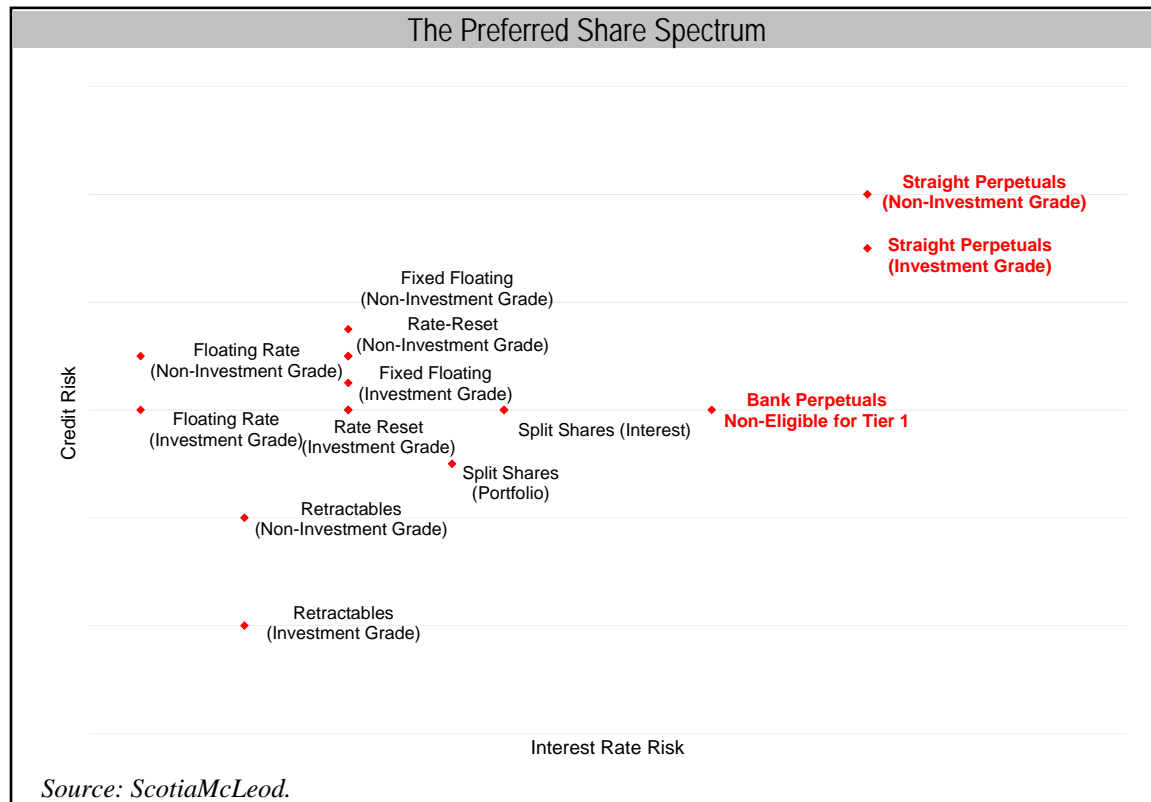
Issuer	Investment Grade (P1-P2)	TSE Symbol	RATING			Price Dec 31/12	Div	RETRACTION			REDEMPTION		
			DBRS	S&P				Date	Price	Pre-tax YTR	Worst Case Call Date	Call Price	Yield to Worst
Brookfield Asset 5.00% S 21		BAM.PR.O	Pfd-2L	P-2	\$25.32	\$1.250	30-Jun-13	\$25.00	2.58%	30-Jun-13	\$25.00	2.58%	
Brookfield Asset 5.40% S 12		BAM.PR.J	Pfd-2L	P-2	\$26.90	\$1.350	31-Mar-18	\$25.00	3.82%	30-Mar-14	\$26.00	2.44%	
CDN Genl. Invest. 3.9% Ser 3		CGI.PR.C	Pfd-1L	N/A	\$25.50	\$0.975	15-Jun-16	\$25.00	3.36%	15-Jun-15	\$25.00	3.16%	
CDN Genl. Invest. 4.65% Ser 2		CGI.PR.B	Pfd-1L	N/A	\$25.49	\$1.163	15-Mar-14	\$25.00	3.24%	15-Mar-13	\$25.18	-4.45%	
Dundee Corp. Ser. 1 5.00%		DC.PR.A	NR	NR	\$26.24	\$1.250	30-Jun-16	\$25.00	3.52%	6-Feb-13	\$25.51	-21.26%	
Fortis Inc. 4.90% Series E		FTS.PR.E	Pfd-2L	P-2	\$27.04	\$1.225	1-Sep-16	\$25.00	2.69%	1-Jun-13	\$25.75	-6.52%	
Fortis Inc. 5.45% Ser. C		FTS.PR.C	Pfd-2L	P-2	\$25.58	\$1.363	1-Sep-13	\$25.00	2.72%	6-Feb-13	\$25.25	-7.39%	
Manulife 4.10% Ser. 1		MFC.PR.A	Pfd-2H	P-2	\$25.91	\$1.025	19-Dec-15	\$25.00	2.89%	6-Feb-13	\$25.75	-8.29%	
N-Scotia Pwr. 1st. 5.90% Ser. D		NSI.PR.D	Pfd-2L	P-2 (L)	\$27.43	\$1.475	15-Jan-16	\$25.00	2.51%	15-Oct-15	\$25.00	2.24%	
Non-Investment Grade (P3 - P4)													
Brookfield 6% Ser. F		BPO.PR.I	Pfd-3H	P-3 (H)	\$25.08	\$1.500	31-Jan-13	\$25.00	3.01%	31-Jan-13	\$25.00	3.01%	
Brookfield 5.25% U.S.\$ G		BPO.PR.K	Pfd-3H	P-3 (H)	\$25.65	\$1.313	30-Sep-15	\$25.00	4.29%	30-Jun-13	\$25.58	2.81%	
Brookfield 5.75% Ser. H		BPO.PR.U	Pfd-3H	P-3 (H)	\$26.23	\$1.438	31-Dec-15	\$25.00	4.04%	6-Feb-13	\$25.67	-24.21%	
Brookfield 5.00% Ser. J		BPO.PR.H	Pfd-3H	P-3 (H)	\$25.60	\$1.250	30-Dec-14	\$25.00	3.81%	6-Feb-13	\$25.50	-1.61%	
Brookfield 5.20% Ser. K		BPO.PR.F	Pfd-3H	P-3 (H)	\$26.15	\$1.300	31-Dec-16	\$25.00	3.98%	6-Feb-13	\$26.00	-4.01%	
Loblaw 5.95% Ser. A		BPO.PR.J	Pfd-3H	P-3 (H)	\$26.95	\$1.488	30-Jul-15	\$25.00	3.24%	30-Jul-13	\$25.75	-0.58%	

Worst case call date is the date which generates the lowest yield if the issuer redeems the preferred share.

Retraction date is when the holder of the preferred can force the issuer to redeem the preferred for the par value.

Source: Bloomberg, ScotiaMcLeod

Fixed Rate Perpetual Preferred Shares



Description: Fixed rate perpetual preferred shares have no maturity date. These structures pay a fixed dividend for as long as they remain outstanding. However, the issuer has the option of redeeming these while the holder has no retraction rights. If a fixed rate perpetual preferred is not redeemed by the issuer, investors have the option of selling them in the secondary market or holding them indefinitely.

Redemption: Fixed rate perpetuials are redeemable at the option of the issuer. Issuers like this form of financing as it gives them the ability to pay a fixed dividend indefinitely without worrying about refinancing levels. That being said, there are other factors which may entice an issuer to either call the preferred shares or leave them outstanding such as the most recent Basel III requirements.

Advantages: This type of preferred share offers investors the highest yield and a stable form of tax-efficient dividend income. Additionally, this class of preferred share may be used to profit from anticipated interest rate or credit spread movements. Due to their long duration perpetual preferred shares will rise in value as credit spreads and interest rates decline. However, the opposite will happen when the Bank of Canada is in rate hiking mode or when credit spreads widen.

Risks: Compared to all other classes of preferred shares (at a given credit rating) the fixed rate perpetuials carry the greatest price volatility as these structures are very sensitive to fluctuations in interest rates and credit spreads. This type of preferred share is most comparable to corporate long bonds (30-year) and due to the new Basel III regulations - bank perpetuials should now be compared to 10-year corporate bonds. This characteristic does not rule them out as a good choice in a diversified portfolio of preferred shares as they often offer attractive returns to compensate investors for taking on the risk of holding a security in perpetuity. However, investors who are not comfortable holding 30-year corporate bonds should not invest in fixed rate perpetual preferred shares.

What's New: In 2012, we saw \$1.8 billion of new fixed rate perpetuals issued in both the financial and utility sectors. The market had not seen issuance of straight perpetuals since February 2010 and due to the low-interest rate environment and the continued search for yield, demand for this type of product was reasonable. Issuers benefited by having the ability to lock in cheap financing indefinitely and investors were compensated with an attractive dividend amid other low yielding fixed income options.

On the redemption front, 66 million shares (worth \$1.682 billion) fixed rate perpetual preferred shares were redeemed over the year. As CIBC had a high Tier 1 ratio compared to its peers the company redeemed all three of its perpetual preferred shares which were not compliant with Basel III Tier 1 Capital. Additionally, The Bank of Montreal redeemed its US\$ pay perpetual (BMO.PR.V) which was paying a high dividend rate of 5.95% at its first call date. Canadian Utilities redeemed two of its outstanding preferred shares worth \$300 million which were paying a high dividend (5.80% - 6.00%). The company was able to refinance in the fixed rate perpetual market and issued \$300 million over two different securities with a 4.90% dividend rate.

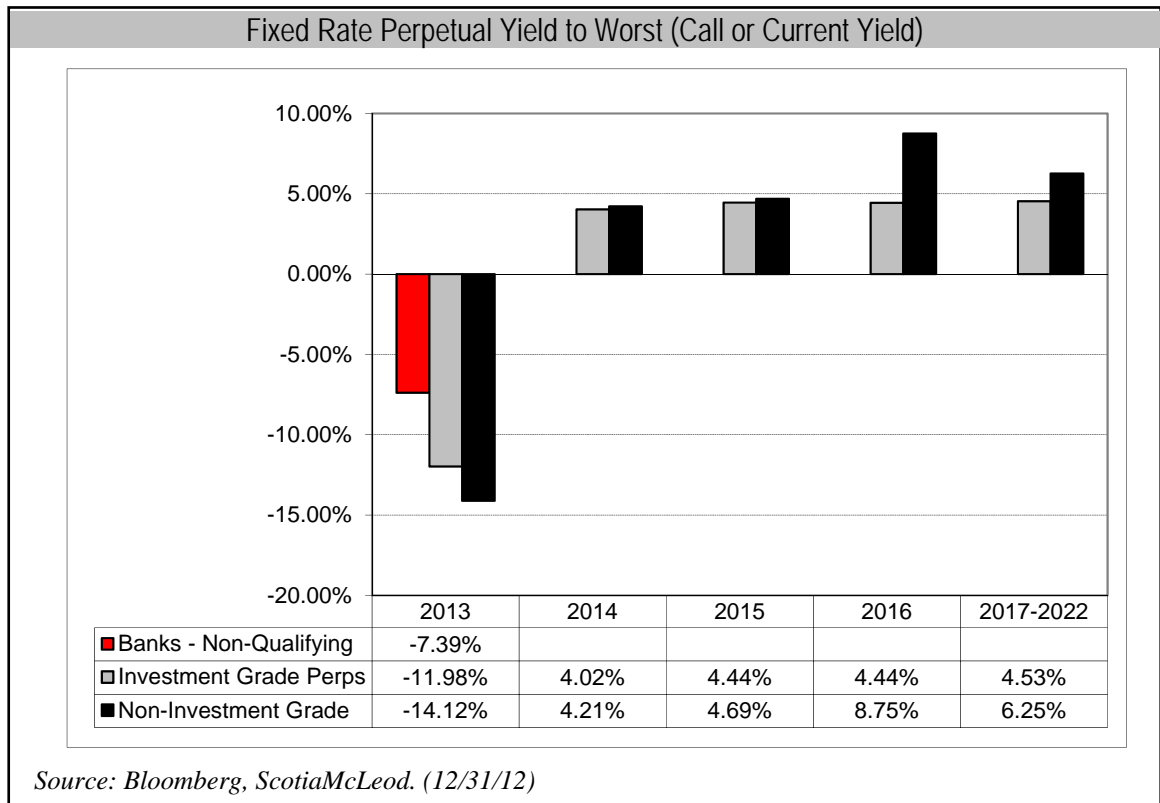
The bank fixed rate perpetual preferred shares which will have their capital treatment phased out over the next 10 years to be compliant with Basel III regulations are trading based on the notion they will be redeemed. These securities should be viewed as a different type of security as their prices will fluctuate based on different factors and as such we have separated them for our analysis.

Recommendations: This type of security should be purchased by investors who already own a diversified portfolio of preferred shares or those searching for income from a well known issuer. This caveat is due to the higher volatility in the prices of these preferred shares (relative to fixed term preferred shares) during periods of rising interest rates (likely for 2013) or widening credit spreads. Investors are also encouraged to look at the lower yield between current yield and yield to call to determine the attractiveness of a specific security.

Non-compliant Bank perpetuals all have potential call dates in 2013 as seen in the following graph and are currently delivering a negative return to next call. It is unlikely that all bank perpetuals will be called in 2013 and banks will rather start by redeeming those securities which have a higher dividend payment and move towards the lower dividend paying securities over a 10-year period.

Fixed Rate Perpetual Yield Commentary

The graph below depicts the average yield to worst for each year across the various groups of straight perpetual preferred shares. Yield to worst calculation is based on the lower of: (1) Current yield and (2) Yield-to-worst and is considered the most conservative return evaluation. It is not advised to purchase any fixed rate perpetual preferred shares which have a yield to worst call in 2013 as they are delivering a negative return as they are trading above their respective upcoming call prices. However, moving into securities that have a longer potential call date, investors are able to pick up a higher return but must be aware of the price volatility than can be experienced in a rising interest rate environment. For example, if long-term (30-year) interest rates increased by 1.00%, the price of a 5.00% dividend fixed rate perpetual has the potential to decline in price by -16.67% given no change in credit spreads.



Non-Qualifying Bank Perpetual Preferred Share Table

Issuer Investment Grade (P1-P2)	TSE Symbol	RATING		Price Dec 31/12	Div	Current Yield	REDEMPTION			2022 REDEMPTION		
		DBRS	S&P				Worst Call Date	Call Price	Yield to Worst	Call Price	Potential Call Date	Yield to Call
BMO 4.50% Ser. 13	BMO.PR.J	Pfd-1L	P-2	\$26.19	\$1.125	4.30%	25-Feb-13	\$25.75	-4.80%	\$25.00	31-Jan-22	3.87%
BMO 5.25% Ser. 14	BMO.PR.K	Pfd-1L	P-2	\$26.37	\$1.313	4.98%	06-Feb-13	\$26.00	-7.33%	\$25.00	31-Jan-22	4.51%
BMO 5.30% Ser. 5	BMO.PR.H	Pfd-1L	P-2	\$25.50	\$1.325	5.20%	25-Feb-13	\$25.00	-5.23%	\$25.00	31-Jan-22	5.03%
BMO 5.80% Ser. 15	BMO.PR.L	Pfd-1L	P-2	\$27.01	\$1.450	5.37%	25-May-13	\$26.00	-2.88%	\$25.00	31-Jan-22	4.71%
BNS 4.50% Ser. 14	BNS.PR.L	Pfd-1L	P-2 (H)	\$26.30	\$1.125	4.28%	06-Feb-13	\$26.00	-14.59%	\$25.00	31-Jan-22	3.79%
BNS 4.50% Ser. 15	BNS.PR.M	Pfd-1L	P-2 (H)	\$26.26	\$1.125	4.28%	06-Feb-13	\$26.00	-12.60%	\$25.00	31-Jan-22	3.81%
BNS 4.80% Ser. 13	BNS.PR.K	Pfd-1L	P-2 (H)	\$25.62	\$1.200	4.68%	06-Feb-13	\$25.50	-5.60%	\$25.00	31-Jan-22	4.43%
BNS 5.25% Ser. 12	BNS.PR.J	Pfd-1L	P-2 (H)	\$25.97	\$1.313	5.05%	28-Oct-13	\$25.00	0.07%	\$25.00	31-Jan-22	4.68%
BNS 5.25% Ser. 16	BNS.PR.N	Pfd-1L	P-2 (H)	\$26.42	\$1.313	4.97%	06-Feb-13	\$26.00	-20.20%	\$25.00	31-Jan-22	4.45%
BNS 5.60% Ser. 17	BNS.PR.O	Pfd-1L	P-2 (H)	\$26.32	\$1.400	5.32%	28-Apr-13	\$26.00	0.39%	\$25.00	31-Jan-22	4.84%
HSBC 5.0% Ser. D	HSB.PR.D	Pfd-2H /'-	P-1 (L)	\$25.82	\$1.250	4.84%	6-Feb-13	\$25.50	-12.97%	\$25.00	31-Jan-22	4.53%
HSBC 5.10% Ser. C	HSB.PR.C	Pfd-2H /'-	P-1 (L)	\$25.70	\$1.275	4.96%	6-Feb-13	\$25.50	-6.75%	\$25.00	31-Jan-22	4.70%
National Bank 4.85% S.16	NA.PR.L	Pfd-2	P-2	\$25.88	\$1.213	4.69%	6-Feb-13	\$25.50	-19.51%	\$25.00	31-Jan-22	4.38%
National Bank 6.00% S.20	NA.PR.M	Pfd-2	P-2	\$26.67	\$1.500	5.62%	15-May-13	\$26.00	0.88%	\$25.00	31-Jan-22	5.09%
Royal Bank 4.45% Ser. AA	RY.PR.A	Pfd-1L	P-1 (L)	\$26.04	\$1.113	4.27%	6-Feb-13	\$25.75	-3.81%	\$25.00	31-Jan-22	3.90%
Royal Bank 4.45% Ser. AF	RY.PR.F	Pfd-1L	P-1 (L)	\$26.28	\$1.113	4.23%	6-Feb-13	\$26.00	-3.11%	\$25.00	31-Jan-22	3.78%
Royal Bank 4.50% Ser. AD	RY.PR.D	Pfd-1L	P-1 (L)	\$26.04	\$1.125	4.32%	24-Feb-13	\$25.75	-0.27%	\$25.00	31-Jan-22	3.95%
Royal Bank 4.50% Ser. AE	RY.PR.E	Pfd-1L	P-1 (L)	\$26.04	\$1.125	4.32%	24-Feb-13	\$25.75	-0.27%	\$25.00	31-Jan-22	3.95%
Royal Bank 4.50% Ser. AG	RY.PR.G	Pfd-1L	P-1 (L)	\$26.16	\$1.125	4.30%	6-Feb-13	\$26.00	-8.21%	\$25.00	31-Jan-22	3.89%
Royal Bank 4.60% Ser. AC	RY.PR.C	Pfd-1L	P-1 (L)	\$26.10	\$1.150	4.41%	6-Feb-13	\$25.75	-3.23%	\$25.00	31-Jan-22	4.13%
Royal Bank 4.70% Ser. AB	RY.PR.B	Pfd-1L	P-1 (L)	\$26.10	\$1.175	4.50%	6-Feb-13	\$25.75	-6.19%	\$25.00	31-Jan-22	4.11%
Royal Bank 5.65% Ser. AH	RY.PR.H	Pfd-1L	P-1 (L)	\$26.73	\$1.413	5.28%	24-May-13	\$26.00	-0.26%	\$25.00	31-Jan-22	4.70%
TD Bank 4.85% Ser. O	TD.PR.O	Pfd-1L	P-1 (L)	\$26.26	\$1.213	4.62%	6-Feb-13	\$25.50	-23.37%	\$25.00	31-Jan-22	4.30%
TD Bank 5.25% Ser. P	TD.PR.P	Pfd-1L	P-1 (L)	\$26.50	\$1.313	4.95%	6-Feb-13	\$26.00	-8.93%	\$25.00	31-Jan-22	4.57%
TD Bank 5.60% Ser. Q	TD.PR.Q	Pfd-1L	P-1 (L)	\$26.80	\$1.400	5.22%	31-Jan-13	\$26.00	-28.38%	\$25.00	31-Jan-22	4.76%
TD Bank 5.60% Ser. R	TD.PR.R	Pfd-1L	P-1 (L)	\$27.10	\$1.400	5.17%	30-Apr-13	\$26.00	-4.96%	\$25.00	31-Jan-22	4.60%
Non-Investment Grade (P3-P4)												
Laurentian Bank 6% Ser. 9	LB.PR.D	Pfd-3L	P-3 (H)	\$25.54	\$1.500	5.87%	6-Feb-13	\$25.00	-22.18%	\$25.00	31-Jan-22	5.69%
Laurentian Bank 5.25% Ser. 10	LB.PR.E	Pfd-3L	P-3 (H)	\$25.30	\$1.313	5.19%	6-Feb-13	\$25.25	2.59%	\$25.00	31-Jan-22	5.07%

Source: Bloomberg, ScotiaMcLeod.

Fixed Rate Perpetual Preferred Share Table

Issuer Investment Grade (P1-P2)	TSE Symbol	RATING		Price		Current Yield	REDEMPTION		Yield to Worst
		DBRS	S&P	Dec 31/12	Div		Worst Call Date	Call Price	
Brookfield Asset Mgmt 4.85% Ser. 36	BAM.PF.C	Pfd-2L	P-2	\$24.92	\$1.213	4.87%	31-Mar-22	\$25.00	4.97%
Brookfield Asset Mgmt 4.75% Ser. 17	BAM.PR.M	Pfd-2L	P-2	\$24.54	\$1.188	4.84%	31-Dec-15	\$25.00	5.47%
Brookfield Asset Mgmt 4.75% Ser. 18	BAM.PR.N	Pfd-2L	P-2	\$24.57	\$1.188	4.83%	30-Jun-16	\$25.00	5.34%
CDN Util. 4.90% Ser. AA	CU.PR.D	Pfd-2H	P-2 (H)	\$26.39	\$1.225	4.64%	1-Sep-21	\$25.00	4.20%
CDN Util. 4.90% Ser. BB	CU.PR.E	Pfd-2H	P-2 (H)	\$26.41	\$1.225	4.64%	1-Sep-21	\$25.00	4.20%
CIBC 5.40% Ser. 29	© CM.PR.G	Pfd-1L /*-	N/A	\$25.56	\$1.350	5.28%	06-Feb-13	\$25.50	-1.58%
CIBC 5.60% Ser. 27	© CM.PR.E	Pfd-1L /*-	P-2	\$25.49	\$1.400	5.49%	06-Feb-13	\$25.00	-23.82%
CIBC 5.75% Ser. 26	© CM.PR.D	Pfd-1L /*-	P-2	\$25.79	\$1.438	5.57%	06-Feb-13	\$25.00	-38.36%
Co-operators Cl. E Ser. C 5.00%	CCS.PR.C	Pfd-3	P-2 (L)	\$25.25	\$1.250	4.95%	30-Jun-16	\$25.00	4.73%
CU Inc. 4.60% Ser. 1	CIU.PR.A	Pfd-2H	P-2 (L)	\$25.00	\$1.150	4.60%	1-Jun-16	\$25.00	4.76%
E-L Financial 4.75% Ser. 2	ELF.PR.G	NR	P-2 (H)	\$24.55	\$1.188	4.84%	17-Oct-15	\$25.00	5.42%
E-L Financial 5.50% Ser. 3	ELF.PR.H	NR	P-2 (H)	\$25.92	\$1.375	5.30%	17-Apr-21	\$25.00	4.94%
E-L Financial Corp. 5.30%	ELF.PR.F	NR	P-2 (H)	\$25.20	\$1.325	5.26%	6-Feb-13	\$25.25	3.48%
Enbridge 5.50% Ser. A	ENB.PR.A	Pfd-2L	P-2	\$25.90	\$1.375	5.31%	6-Feb-13	\$25.00	-36.00%
Fortis Inc. 4.75% Ser. J	FTS.PR.J	Pfd-2L	P-2	\$25.66	\$1.188	4.63%	1-Dec-21	\$25.00	4.49%
Fortis Inc. 4.90% Ser. F	FTS.PR.F	Pfd-2L	P-2	\$25.83	\$1.225	4.74%	1-Dec-15	\$25.00	3.88%
Great West 4.5% Ser. I	GWO.PR.I	Pfd-1L	P-1 (L)	\$24.89	\$1.125	4.52%	30-Jun-15	\$25.00	4.75%
Great West 4.80% Ser. R	GWO.PR.R	Pfd-1L	P-1 (L)	\$25.34	\$1.200	4.74%	31-Dec-21	\$25.00	4.63%
Great West 4.85% Ser. H	GWO.PR.H	Pfd-1L	P-1 (L)	\$25.78	\$1.213	4.70%	6-Feb-13	\$25.31	-8.69%
Great West 5.15% Ser. Q	GWO.PR.Q	Pfd-1L	P-1 (L)	\$26.27	\$1.288	4.90%	30-Sep-21	\$25.00	4.46%
Great West 5.20% Ser. G	GWO.PR.G	Pfd-1L	P-1 (L)	\$25.27	\$1.300	5.14%	31-Dec-13	\$25.00	4.21%
Great West 5.40% Ser. P	GWO.PR.P	Pfd-1L	P-1 (L)	\$26.48	\$1.350	5.10%	31-Mar-21	\$25.00	4.55%
Great West 5.65% Ser. L	GWO.PR.L	Pfd-1L	P-1 (L)	\$26.60	\$1.413	5.31%	30-Dec-14	\$26.00	4.29%
Great West 5.80% Ser. M	GWO.PR.M	Pfd-1L	P-1 (L)	\$26.64	\$1.450	5.44%	31-Mar-15	\$26.00	4.49%
Great West 5.90% Ser. F	GWO.PR.F	Pfd-1L	P-1 (L)	\$25.68	\$1.475	5.74%	6-Feb-13	\$25.00	-27.85%
IGM Financial Inc. 5.90% Ser. B	IGM.PR.B	Pfd-2H	P-1 (L)	\$26.32	\$1.475	5.60%	30-Dec-16	\$25.75	3.44%
Industrial Alliance 4.60%	IAG.PR.A	Pfd-2H	P-1 (L)	\$24.71	\$1.150	4.65%	31-Mar-15	\$25.00	5.22%
Industrial Alliance 5.90% Ser. F	IAG.PR.F	Pfd-2H	P-1 (L)*-	\$27.13	\$1.475	5.44%	31-Mar-15	\$26.00	3.71%
Industrial Alliance 6.00% Ser. E	IAG.PR.E	Pfd-2H	P-1 (L)*-	\$26.64	\$1.500	5.63%	31-Dec-14	\$26.00	4.54%
Manulife Financial 4.50% S. 3	MFC.PR.C	Pfd-2H	P-2	\$24.60	\$1.125	4.57%	19-Mar-15	\$25.00	5.42%
Manulife Financial 4.65% S. 2	MFC.PR.B	Pfd-2H	P-2	\$24.99	\$1.163	4.65%	19-Mar-14	\$25.00	4.94%
Power Corp. 5.00% Ser.D	POW.PR.D	Pfd-2H	P-2 (H)	\$25.15	\$1.250	4.97%	15-Oct-14	\$25.00	4.61%
Power Corp. 5.35% Ser.B	POW.PR.B	Pfd-2H	P-2 (H)	\$25.36	\$1.338	5.27%	6-Feb-13	\$25.00	-16.37%
Power Corp. 5.60% Ser.A	POW.PR.A	Pfd-2H	P-2 (H)	\$25.35	\$1.400	5.52%	6-Feb-13	\$25.00	-15.54%
Power Corp. 5.60% Ser.G	POW.PR.G	Pfd-2H	P-2 (H)	\$26.96	\$1.400	5.19%	15-Apr-17	\$26.00	4.41%
Power Corp. 5.80% Ser.C	POW.PR.C	Pfd-2H	P-1 (L)	\$25.35	\$1.450	5.72%	6-Feb-13	\$25.00	-15.65%
Power Finl. 4.95% Ser. K	PWF.PR.K	Pfd-1L	P-1 (L)	\$25.54	\$1.238	4.85%	31-Oct-14	\$25.00	4.26%
Power Finl. 5.10% Ser. L	PWF.PR.L	Pfd-1L	P-1 (L)	\$25.82	\$1.275	4.94%	31-Oct-15	\$25.00	4.23%
Power Finl. 5.25% Ser. E	PWF.PR.F	Pfd-1L	P-1 (L)	\$25.50	\$1.313	5.15%	6-Feb-13	\$25.00	-10.18%
Power Finl. 5.50% Ser. D	PWF.PR.E	Pfd-1L	P-1 (L)	\$25.58	\$1.375	5.38%	30-Apr-13	\$25.00	1.41%
Power Finl. 5.50% Ser. R	PWF.PR.R	Pfd-1L	P-1 (L)	\$26.93	\$1.375	5.11%	30-Apr-21	\$25.00	4.53%
Power Finl. 5.75% Ser. H	PWF.PR.H	Pfd-1L	P-1 (L)	\$25.59	\$1.438	5.62%	6-Feb-13	\$25.00	-13.29%
Power Finl. 5.80% Ser. O	PWF.PR.O	Pfd-1L	P-1 (L)	\$26.74	\$1.450	5.42%	31-Oct-14	\$26.00	4.55%
Power Finl. 5.90% Ser. F	PWF.PR.G	Pfd-1L	P-1 (L)	\$25.58	\$1.475	5.77%	6-Feb-13	\$25.00	-12.33%
Power Finl. 6.00% Ser. I	PWF.PR.I	Pfd-1L	P-1 (L)	\$25.68	\$1.500	5.84%	6-Feb-13	\$25.00	-16.93%
Royal Bank 4.90% Ser. W	© RY.PR.W	Pfd-1L /*-	P-1 (L)	\$25.74	\$1.225	4.76%	24-Feb-13	\$25.25	-5.77%
Sun Life Fin. 4.45% Ser. 3	SLF.PR.C	Pfd-1L /*-	P-2 (H)	\$24.45	\$1.113	4.55%	29-Mar-15	\$25.00	5.59%
Sun Life Fin. 4.45% Ser. 4	SLF.PR.D	Pfd-1L /*-	P-2 (H)	\$24.36	\$1.113	4.57%	31-Dec-15	\$25.00	5.43%
Sun Life Fin. 4.50% Ser. 5	SLF.PR.E	Pfd-1L /*-	P-2 (H)	\$24.56	\$1.125	4.58%	30-Mar-16	\$25.00	5.14%
Sun Life Fin. 4.75% Ser. 1	SLF.PR.A	Pfd-1L /*-	P-2 (H)	\$25.18	\$1.188	4.72%	28-Mar-14	\$25.00	4.29%
Sun Life Fin. 4.80% Ser. 2	SLF.PR.B	Pfd-1L /*-	P-2 (H)	\$25.30	\$1.200	4.74%	30-Sep-14	\$25.00	4.16%
TransCanada 5.6% Ser. U	TCA.PR.X	Pfd-2L	P-2	\$51.70	\$2.800	5.42%	15-Oct-13	\$50.00	-0.77%
TransCanada 5.6% Ser. Y	TCA.PR.Y	Pfd-2L	P-2	\$52.32	\$2.800	5.35%	5-Mar-14	\$50.00	0.81%
Westcoast 5.50% Ser. 7	W.PR.H	Pfd-2L	P-2 (H)	\$25.66	\$1.375	5.36%	15-Oct-13	\$25.00	1.92%
Westcoast 5.60% Ser. 8	W.PR.J	Pfd-2L	P-2 (H)	\$25.16	\$1.400	5.56%	6-Feb-13	\$25.00	-7.50%

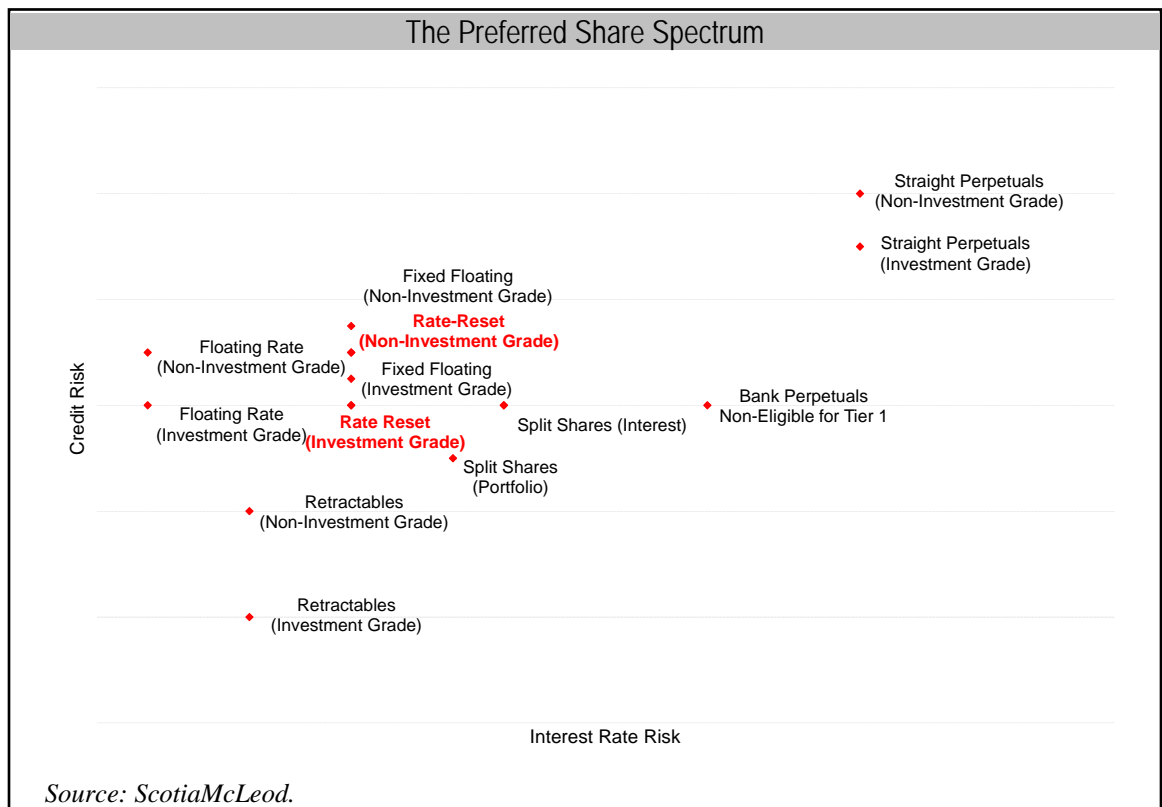
© Convertible into common shares - Unlikely to be redeemed under Basel III regulations

Non-Investment Grade (P3-P4)

Atlantic Power 4.85% Ser 1	AZP.PR.A	Pfd-4	P-4 (L)	\$13.85	\$1.213	8.75%	28-Jun-16	\$25.00	24.34%
Bombardier 6.25% Ser. 4	BBD.PR.C	Pfd-4	P-4	\$24.35	\$1.563	6.42%	6-Feb-13	\$25.00	37.25%
FirstService Corp. US\$ 7.00%	FSV.PR.U	NR	N/A	\$25.87	\$1.750	6.76%	6-Feb-13	\$25.00	-40.15%
G. Weston Ltd. 4.75% Ser.V	WN.PR.E	Pfd-3	P-3 (H)	\$25.07	\$1.188	4.74%	1-Jul-15	\$25.00	4.69%
G. Weston Ltd. 5.2% Ser.III	WN.PR.C	Pfd-3	P-3 (H)	\$25.39	\$1.300	5.12%	1-Jul-14	\$25.00	4.21%
G. Weston Ltd. 5.2% Ser.IV	WN.PR.D	Pfd-3	P-3 (H)	\$25.55	\$1.300	5.09%	6-Feb-13	\$25.25	1.18%
G. Weston Ltd. 5.8% Ser.I	WN.PR.A	Pfd-3	P-3 (H)	\$25.60	\$1.450	5.66%	6-Feb-13	\$25.00	-23.93%
Innervex Renewable Energy Inc 5.85%	INE.PR.C	Pfd-3L	P-3	\$23.40	\$1.463	6.25%	15-Jan-22	\$25.00	6.87%

Source: Bloomberg, ScotiaMcLeod.

Rate Reset Perpetual Preferred Shares



Description: This class of preferred share pays a fixed dividend until the reset date, which is typically also the call date. On that date, and every reset date thereafter, if the preferred share is not called by the issuer, the **holder** has two options.

1. Locking in a fixed dividend until the next reset date. This rate is at a predetermined spread over an equivalent term Government of Canada bond.
2. Exchanging to a floating rate preferred share. The floating rate is a quarterly dividend based on 3-month Government of Canada Treasury bills, plus the same spread as in option 1.

Investors have the option at each reset date, if the issue is not called, of switching back and forth between the two dividend options.

Redemption: These preferred shares are redeemable at the option of the issuer on every reset date at par value (\$25.00). Additionally, if the floating rate option is chosen, the floating rate preferred shares may also be called at the option of the issuer, usually at a premium price. Issues currently outstanding are callable at a price of \$25.50 at any time. Rate-resets are perpetual in nature and are not retractable by the holder.

Advantages: In exchange for having no maturity date, investors are rewarded with an attractive dividend rate which is re-set in-line with yields prevailing in the market on a periodic basis. Due to this factor, this structure has less interest rate risk than straight perpetual preferred shares.

Risks: The main risk of investing in rate reset preferred shares is that they are perpetual and the issuer will only redeem these structures if it is in their best interest. In the long term, investors in perpetual securities need to be very concerned about credit quality and the future prospects of the issuer, as there is no obligation to ever redeem the issue.

Recommendations: Within the rate reset space our current recommendation is for investors to create a ladder of preferred shares in terms 2014-2019. This is a good strategy to reduce re-investment risk and be exposed to various interest rate environments. The higher the reset spread the higher the likelihood of the preferred shares being redeemed at the initial reset date. It is important for investors to be aware of rate resets which have lower reset spreads as these securities could get extended past the initial call date and have prices lower than par with dividends lower than current rates. At this time energy infrastructure rate resets with a reset date between 2016-2018 are offering an attractive yield and have a decent reset spread. Please contact your ScotiaMcLeod advisor for a current list of recommendations.

What's New: Rate reset preferred shares which only originated in 2008, now contribute to more than half (52.4%) of the Canadian preferred shares market and made up approximately 78% of the new issues during the year. Some of the new issuers in the preferred share market this past year include: Nexen Inc., Versen Inc., Valener Energy Co., Artis REIT, Birchcliff Energy Ltd. & Algonquin Power. A list of all other rate resets preferred shares currently outstanding in the market can be found in the following tables.

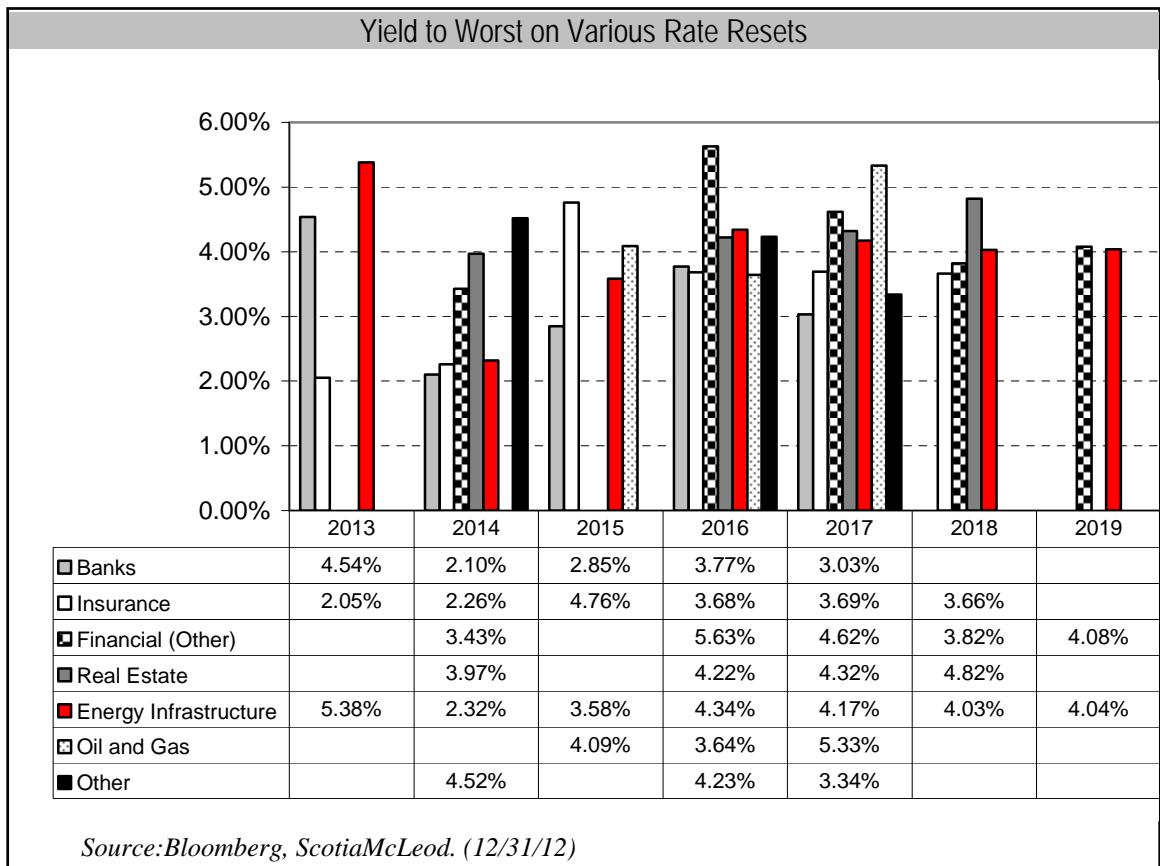
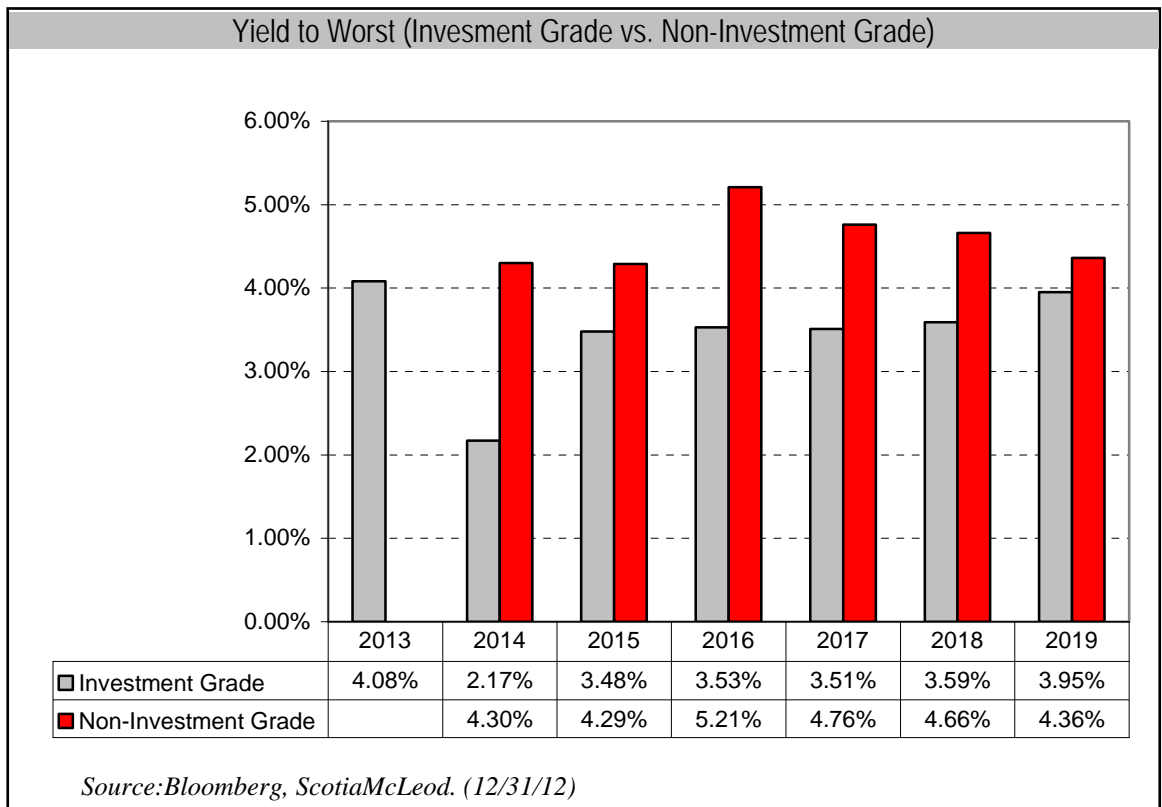
As the first reset date approaches (April 26, 2013) there have been many questions surrounding the potential extension of some of the outstanding rate reset preferred shares which have low reset spreads. We are entering uncharted territory as we approach the first reset date and it is important to be cognizant of the potential that the company has the right to extend for an additional 5-year term. With respect to Basel III, any bank preferred share that is extended from 2013 to 2018 is still within the constraints to phase-out the existing form of preferred shares by 2022.

Over the year, the 2013 rate resets which have a low reset spread have sold off accordingly to reflect the extension risk apparent in these securities.

Rate Reset Yield Commentary

The following charts highlight the yield to worst among both different credits as well as the various sectors in the rate reset space. When considering purchasing a rate reset preferred share it is important to look at the lower yield between current yield and yield to reset as well as the reset spread. The 2013 rate resets are yielding more than the longer dated resets as there is the potential for extension with a new dividend rate that is lower than the current rate. The vast majority of investment grade rate resets in 2014 have a high reset spread and hence are trading at the lowest yield as investors are willing to pay more for the higher likelihood of being called rather than extended.

With respect to individual sectors, the energy infrastructure sector is offering investors a relatively attractive yield in the 2016-2019 term, however, it is cautioned to be aware of the specific credit of the company and the reset spread.



Rate Reset Perpetual Preferred Share Table

Issuer Investment Grade (P1-P2)	RATING			Price Dec 31/12	Div	Current Yield	REDEMPTION		
	TSE Symbol	DBRS	S&P				Reset/Call Date	Yield to Reset	Reset Rate (5 - YR CAN)
Bank of Montreal 3.90% Ser 25	BMO.PR.Q	Pfd-1L	P-2	\$25.02	\$0.98	3.90%	25-Aug-16	4.02%	+115 bp
Bank of Montreal 5.20% Ser 16	BMO.PR.M	Pfd-1L	P-2	\$25.14	\$1.30	5.17%	25-Aug-13	5.37%	+165 bp
Bank of Montreal 5.40% Ser 23	BMO.PR.P	Pfd-1L	P-2	\$27.07	\$1.35	4.99%	25-Feb-15	1.75%	+241 bp
Bank of Montreal 6.50% Ser 18	BMO.PR.N	Pfd-1L	P-2	\$26.45	\$1.63	6.14%	25-Feb-14	2.00%	+383 bp
Bank of Montreal 6.50% Ser 21	BMO.PR.O	Pfd-1L	P-2	\$26.68	\$1.63	6.11%	25-May-14	2.14%	+458 bp
BCE Inc. 4.15% Ser AK	BCE.PR.K	Pfd-3H	P-2 (L)	\$25.47	\$1.038	4.07%	31-Dec-16	3.67%	+188 bp
BNS 3.70% Ser. 32	BNS.PR.Z	Pfd-1L	P-2 (H)	\$24.65	\$0.93	3.75%	27-Jan-16	4.13%	+134 bp
BNS 3.85% Ser. 30	BNS.PR.Y	Pfd-1L	P-2 (H)	\$24.29	\$0.96	3.96%	26-Apr-15	5.10%	+100 bp
BNS 5.00% Ser. 18	BNS.PR.P	Pfd-1L	P-2 (H)	\$25.05	\$1.25	4.99%	26-Apr-13	3.61%	+205 bp
BNS 5.00% Ser. 20	BNS.PR.Q	Pfd-1L	P-2 (H)	\$24.83	\$1.25	5.03%	26-Oct-13	5.61%	+170 bp
BNS 5.00% Ser. 22	BNS.PR.R	Pfd-1L	P-2 (H)	\$25.01	\$1.25	5.00%	25-Jan-14	4.76%	+188 bp
BNS 6.25% Ser. 26	BNS.PR.T	Pfd-1L	P-2 (H)	\$26.42	\$1.56	5.91%	24-Apr-14	1.60%	+414 bp
BNS 6.25% Ser. 28	BNS.PR.X	Pfd-1L	P-2 (H)	\$26.55	\$1.56	5.89%	26-Apr-14	1.20%	+446 bp
Brookfield Asset 4.20% S 34	BAM.PF.B	Pfd-2L	P-2	\$25.19	\$1.05	4.17%	31-Mar-19	4.08%	+263 bp
Brookfield Asset 4.50% S 26	BAM.PR.T	Pfd-2L	P-2	\$25.60	\$1.13	4.39%	31-Mar-17	3.91%	+231 bp
Brookfield Asset 4.50% S 32	BAM.PF.A	Pfd-2L	P-2	\$25.90	\$1.13	4.34%	30-Sep-18	3.82%	+290 bp
Brookfield Asset 4.60% S 28	BAM.PR.X	Pfd-2L	P-2	\$25.15	\$1.15	4.57%	30-Jun-17	4.48%	+180 bp
Brookfield Asset 4.80% S 30	BAM.PR.Z	Pfd-2L	P-2	\$26.30	\$1.20	4.56%	31-Dec-17	3.68%	+296 bp
Brookfield Asset 5.40% S 24	BAM.PR.R	Pfd-2L	P-2	\$26.32	\$1.35	5.13%	30-Jun-16	3.82%	+230 bp
Brookfield Asset 7.00% S 22	BAM.PR.P	Pfd-2L	P-2	\$27.00	\$1.75	6.48%	30-Sep-14	2.36%	+445 bp
Canadian Utilities 4.00% Series Y	CU.PR.C	Pfd-2H	P-2 (H)	\$26.35	\$1.00	3.80%	1-Jun-17	2.79%	+240 bp
CIBC 5.35% Ser. 33	CM.PR.K	Pfd-1L	P-2	\$26.22	\$1.34	5.10%	31-Jul-14	1.97%	+218 bp
CIBC 6.5% Ser. 35	CM.PR.L	Pfd-1L	P-2	\$26.38	\$1.63	6.16%	28-Apr-14	1.94%	+447 bp
CIBC 6.5% Ser. 37	CM.PR.M	Pfd-1L	P-2	\$26.64	\$1.63	6.10%	28-Jul-14	1.99%	+433 bp
Co-operators Cl. E Ser. D 7.25%	CCS.PR.D	Pfd-3H	P-2 (L)	\$26.40	\$1.810	6.86%	30-Jun-14	3.48%	+521 bp
CU Inc. 3.8% Ser. 4	CIU.PR.C	Pfd-2H	P-2 (L)	\$24.75	\$0.95	3.84%	1-Jun-16	4.25%	+136 bp
CU Inc. 6.7% Ser. 2	CIU.PR.B	Pfd-2H	P-2 (L)	\$26.74	\$1.68	6.26%	1-Jun-14	2.14%	+481 bp
Emera Inc. 4.10% Ser C	EMA.PR.C	Pfd-3H	P-2 (L)	\$26.43	\$1.025	3.88%	15-Aug-18	3.10%	+265 bp
Emera Inc. 4.40% Ser A	EMA.PR.A	Pfd-3H	P-2 (L)	\$26.04	\$1.100	4.22%	15-Aug-15	3.00%	+184 bp
Enbridge Inc. 4.00% Ser B	ENB.PR.B	Pfd-2L	P-2	\$25.40	\$1.00	3.94%	1-Jun-17	3.71%	+240 bp
Enbridge Inc. 4.00% Ser D	ENB.PR.D	Pfd-2L	P-2	\$25.59	\$1.00	3.91%	1-Mar-18	3.59%	+237 bp
Enbridge Inc. 4.00% Ser F	ENB.PR.F	Pfd-2L	P-2	\$25.75	\$1.00	3.88%	1-Jun-18	3.48%	+251 bp
Enbridge Inc. 4.00% Ser H	ENB.PR.H	Pfd-2L	P-2	\$25.28	\$1.00	3.96%	1-Sep-18	3.86%	+212 bp
Enbridge Inc. 4.00% Ser N	ENB.PR.N	Pfd-2L	P-2	\$25.62	\$1.00	3.90%	1-Dec-18	3.61%	+265 bp
Enbridge Inc. 4.00% Ser P	ENB.PR.P	Pfd-2L	P-2	\$25.32	\$1.00	3.95%	1-Mar-19	3.85%	+250 bp
Enbridge Inc. 4.00% Ser R	ENB.PR.T	Pfd-2L	P-2	\$25.22	\$1.00	3.97%	1-Jun-19	3.91%	+250 bp
Enbridge Inc. US 4.00% Ser J	ENB.PR.U	Pfd-2L	P-2	\$25.60	\$1.00	3.91%	1-Jun-17	3.51%	+305 bp
Enbridge Inc. US 4.00% Ser L	ENB.PF.U	Pfd-2L	P-2	\$25.15	\$1.00	3.98%	1-Sep-17	3.96%	+315 bp
Fortis Inc 4.25% Ser. H	FTS.PR.H	Pfd-2L	P-2	\$25.71	\$1.06	4.13%	1-Jun-15	3.22%	+145 bp
Fortis Inc 5.25% Ser. G*	FTS.PR.G	Pfd-2L	P-2	\$24.38	\$1.31	5.38%	1-Sep-13	10.22%	+123 bp
Great-West Lifeco Inc. 3.65% Ser N	GWO.PR.N	Pfd-1L	P-1 (L)	\$23.46	\$0.91	3.89%	31-Dec-15	5.96%	+130 bp
Great-West Lifeco Inc. 6.00% Ser J	GWO.PR.J	Pfd-1L	P-1 (L)	\$25.95	\$1.50	5.78%	31-Dec-13	2.21%	+307 bp
HSBC Bank Canada 6.60% Ser E	HSB.PR.E	Pfd-2H	P-1 (L)	\$26.62	\$1.65	6.20%	30-Jun-14	2.25%	+485 bp
Husky Energy Inc 4.45% Ser 1	HSE.PR.A	Pfd-2L	P-2(L)	\$26.11	\$1.11	4.26%	31-Mar-16	3.04%	+173 bp
Industrial Alliance 4.30% Ser G	IAG.PR.G	Pfd-2H	P-1 (L)*-	\$26.20	\$1.08	4.10%	30-Jun-17	3.17%	+285 bp
Industrial Alliance 6.20% Ser C	IAG.PR.C	Pfd-2H	P-1 (L)*-	\$26.08	\$1.55	5.94%	31-Dec-13	1.88%	+338 bp
Intact Financial Corp 4.20% Ser 1	IFC.PR.A	Pfd-2L	NR	\$25.96	\$1.05	4.04%	30-Dec-17	3.38%	+172 bp
Intact Financial Corp 4.20% Ser 3	IFC.PR.C	Pfd-2L	NR	\$26.54	\$1.05	3.96%	30-Sep-16	2.49%	+266 bp
Manulife Corp 4.00% Ser 11	MFC.PR.J	Pfd-2H	P-2	\$25.50	\$1.00	3.92%	19-Mar-18	3.66%	+261 bp
Manulife Corp 4.20% Ser 3	MFC.PR.F	Pfd-2H	P-2	\$24.38	\$1.05	4.31%	19-Jun-16	5.07%	+141 bp
Manulife Corp 4.40% Ser 5	MFC.PR.G	Pfd-2H	P-2	\$26.17	\$1.10	4.20%	19-Dec-16	3.20%	+290 bp
Manulife Corp 4.40% Ser 9	MFC.PR.I	Pfd-2H	P-2	\$26.13	\$1.10	4.21%	19-Sep-17	3.41%	+286 bp
Manulife Corp 4.60% Ser 7	MFC.PR.H	Pfd-2H	P-2	\$26.27	\$1.15	4.38%	19-Mar-17	3.37%	+313 bp
Manulife Corp 5.60% Ser 1	MFC.PR.E	Pfd-2H	P-2	\$26.28	\$1.40	5.33%	19-Sep-14	2.69%	+323 bp
Manulife Corp 6.60% Ser 4	MFC.PR.D	Pfd-2H	P-2	\$26.60	\$1.65	6.20%	19-Mar-14	1.50%	+456 bp
National 3.80% Ser. 28	NA.PR.Q	Pfd-2	P-2	\$26.19	\$0.95	3.63%	15-Nov-17	2.89%	+243 bp
National 5.375% Ser. 21	NA.PR.N	Pfd-2	P-2	\$25.50	\$1.34	5.25%	15-Aug-13	3.37%	+205 bp
National 6.6% Ser. 24	NA.PR.O	Pfd-2	P-2	\$26.44	\$1.65	6.24%	15-Feb-14	2.20%	+463 bp
National 6.6% Ser. 26	NA.PR.P	Pfd-2	P-2	\$26.46	\$1.65	6.24%	15-Feb-14	2.13%	+479 bp
Power Financial Corp 4.40% Ser P	PWF.PR.P	Pfd-1L	P-1 (L)	\$25.63	\$1.10	4.29%	30-Jan-16	3.82%	+160 bp
Power Financial Corp 6.00% Ser M	PWF.PR.M	Pfd-1L	P-1 (L)	\$26.34	\$1.50	5.69%	31-Jan-14	1.97%	+320 bp
Royal Bank 5.00% Ser. AJ	RY.PR.I	Pfd-1L	P-1 (L)	\$25.64	\$1.25	4.88%	24-Feb-14	3.25%	+193 bp
Royal Bank 5.60% Ser. AL	RY.PR.L	Pfd-1L	P-1 (L)	\$26.29	\$1.40	5.33%	24-Feb-14	1.59%	+267 bp
Royal Bank 6.10% Ser. AX	RY.PR.Y	Pfd-1L	P-1 (L)	\$27.10	\$1.53	5.63%	24-Nov-14	1.95%	+413 bp
Royal Bank 6.25% Ser. AN	RY.PR.N	Pfd-1L	P-1 (L)	\$26.35	\$1.56	5.92%	24-Feb-14	2.08%	+350 bp
Royal Bank 6.25% Ser. AP	RY.PR.P	Pfd-1L	P-1 (L)	\$26.33	\$1.56	5.92%	24-Feb-14	2.15%	+419 bp
Royal Bank 6.25% Ser. AR	RY.PR.R	Pfd-1L	P-1 (L)	\$26.45	\$1.56	5.90%	24-Feb-14	1.73%	+450 bp

* Holders do not have the option of converting to a floating rate preferred on redemption date

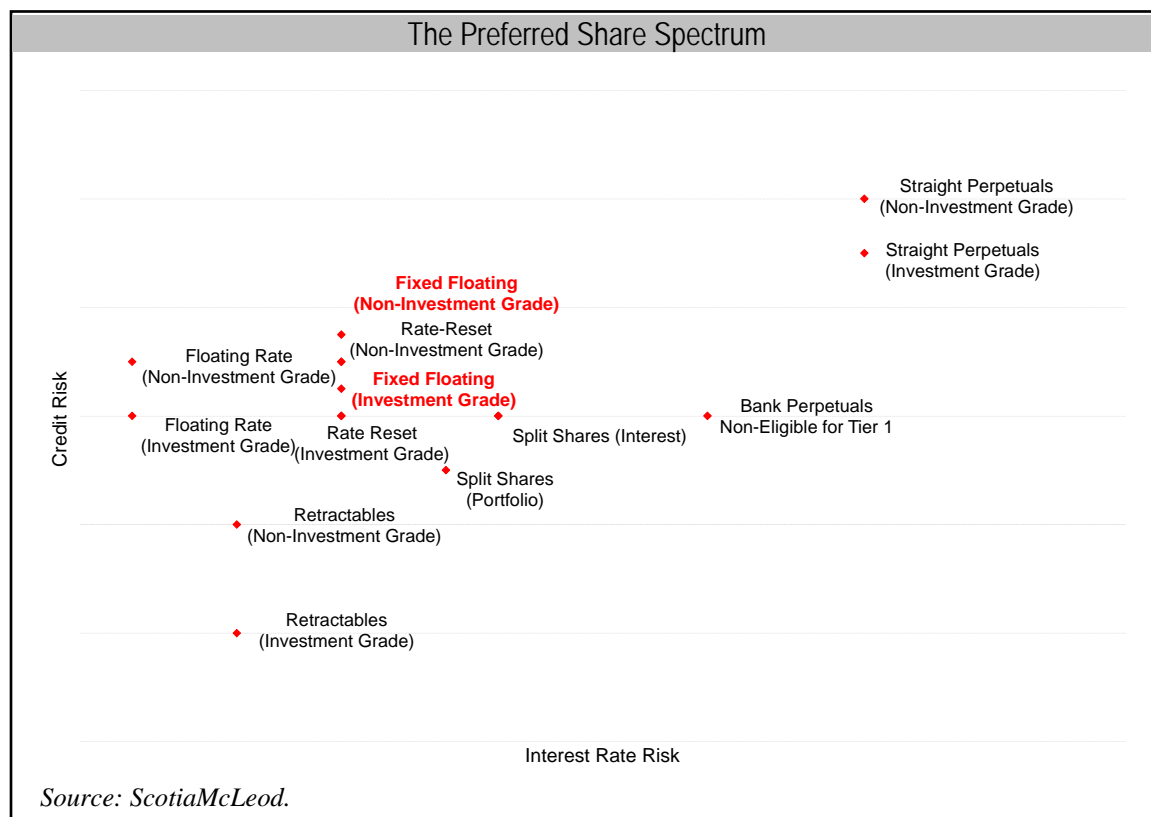
Source: Bloomberg, ScotiaMcLeod.

Rate Reset Perpetual Preferred Share Table

Issuer Investment Grade (P1-P2)	RATING			Price Dec 31/12	Div	Current Yield	REDEMPTION		
	TSE Symbol	DBRS	S&P				Reset/Call Date	Yield to Reset	Reset Rate (5 - YR CAN)
Royal Bank 6.25% Ser. AT	RY.PR.T	Pfd-1L	P-1 (L)	\$26.88	\$1.56	5.80%	24-Aug-14	2.02%	+406 bp
Royal Bank 6.25% Ser. AV	RY.PR.X	Pfd-1L	P-1 (L)	\$26.97	\$1.56	5.78%	24-Aug-14	1.80%	+442 bp
Sun Life Financial Inc. 3.90% Ser. 10R	SLF.PR.H	Pfd-1L /-	P-2 (H)	\$25.24	\$0.98	3.86%	30-Sep-16	3.65%	+217 bp
Sun Life Financial Inc. 4.25% Ser. 12R	SLF.PR.I	Pfd-1L /-	P-2 (H)	\$25.80	\$1.06	4.12%	31-Dec-16	3.41%	+273 bp
Sun Life Financial Inc. 4.35% Ser. 8R	SLF.PR.G	Pfd-1L /-	P-2 (H)	\$24.52	\$1.09	4.44%	30-Jun-15	5.24%	+141 bp
Sun Life Financial Inc. 6.00% Ser. 6R	SLF.PR.F	Pfd-1L /-	P-2 (H)	\$26.49	\$1.50	5.66%	30-Jun-14	2.00%	+379 bp
TD Bank 5.00% Ser. AA	TD.PR.A	Pfd-1L	P-1 (L)	\$25.68	\$1.25	4.87%	31-Jan-14	3.30%	+ 196 bp
TD Bank 5.00% Ser. S	TD.PR.S	Pfd-1L	P-1 (L)	\$25.11	\$1.25	4.98%	30-Jul-13	6.03%	+160 bp
TD Bank 5.10% Ser. Y	TD.PR.Y	Pfd-1L	P-1 (L)	\$25.19	\$1.28	5.06%	30-Oct-13	5.41%	+168 bp
TD Bank 5.60% Ser. AC	TD.PR.C	Pfd-1L	P-1 (L)	\$26.33	\$1.40	5.32%	31-Jan-14	1.55%	+ 274 bp
TD Bank 6.25% Ser. AE	TD.PR.E	Pfd-1L	P-1 (L)	\$26.92	\$1.56	5.79%	30-Apr-14	1.25%	+437 bp
TD Bank 6.25% Ser. AG	TD.PR.G	Pfd-1L	P-1 (L)	\$26.79	\$1.56	5.82%	30-Apr-14	1.64%	+438 bp
TD Bank 6.25% Ser. AI	TD.PR.I	Pfd-1L	P-1 (L)	\$27.00	\$1.56	5.78%	31-Jul-14	1.82%	+ 415 bp
TD Bank 6.25% Ser. AK	TD.PR.K	Pfd-1L	P-1 (L)	\$27.00	\$1.56	5.78%	31-Jul-14	1.82%	+ 433 bp
TransCanada Corp 4.00% Ser 3	TRP.PR.B	Pfd-2L	P-2	\$24.43	\$1.00	4.09%	30-Jun-15	5.04%	+128 bp
TransCanada Corp 4.40% Ser 5	TRP.PR.C	Pfd-2L	P-2	\$25.95	\$1.10	4.24%	30-Jan-16	3.01%	+154 bp
TransCanada Corp 4.60% Ser 1	TRP.PR.A	Pfd-2L	P-2	\$25.69	\$1.15	4.48%	31-Dec-14	3.22%	+192 bp
Valener Inc. 4.35% Ser A	VNR.PR.A	Pfd-2L	P-2 (L)	\$26.41	\$1.09	4.12%	15-Oct-17	3.30%	+ 281 bp
Non-Investment Grade (P3-P4)									
Aimia (Group Aeroplan) 6.50% Ser 1	AIM.PR.A	NR	P-3	\$26.32	\$1.63	6.17%	31-Mar-15	4.09%	+ 375 bp
Algonquin Power 4.50% Ser A	AQN.PR.A	Pfd-3L	P-3	\$25.17	\$1.125	4.47%	31-Dec-18	4.39%	+294 bp
AltaGas Ltd 5.00% Ser A	ALA.PR.A	Pfd-3	P-3 (H)	\$25.98	\$1.250	4.81%	30-Sep-15	3.54%	+266 bp
AltaGas Ltd US 4.40% Ser C	ALA.PR.U	Pfd-3	P-3 (H)	\$25.26	\$1.100	4.35%	30-Sep-17	4.18%	+358 bp
Artis REIT 5.25% Series A (Int & ROC)	AX.PR.A	NR	NR	\$25.25	\$1.313	5.20%	30-Sep-17	5.04%	+406 bp
Artis REIT 5.25% US Series C (Int & ROC)	AX.PR.U	NR	NR	\$25.01	\$1.313	5.25%	31-Mar-18	5.27%	+446 bp
Atlantic Power 7.00% Ser 2	AZP.PR.B	Pfd-4	P-4 (L)	\$22.90	\$1.750	7.64%	31-Dec-14	11.95%	+418 bp
Bell Aliant Pref Equity. 4.55% Ser C	BAF.PR.C	Pfd-3	P-3 (H)	\$26.22	\$1.138	4.34%	31-Mar-17	3.34%	+309 bp
Bell Aliant Pref Equity. 4.85% Ser A	BAF.PR.A	Pfd-3	P-3 (H)	\$25.45	\$1.213	4.76%	31-Mar-16	4.29%	+209 bp
Birchcliff Energy Ltd 8.00% Ser A	BIR.PR.A	NR	NR	\$26.31	\$2.00	7.60%	30-Sep-17	6.75%	+683 bp
Brookfield Prop 4.60% Ser. T	BPO.PR.T	Pfd-3H	P-3 (H)	\$25.30	\$1.15	4.55%	31-Dec-18	4.39%	+316 bp
Brookfield Prop 5.10% Ser. R	BPO.PR.R	Pfd-3H	P-3 (H)	\$25.95	\$1.275	4.91%	30-Sep-16	4.04%	+348 bp
Brookfield Prop 5.15% Ser. P	BPO.PR.P	Pfd-3H	P-3 (H)	\$25.84	\$1.288	4.98%	31-Mar-17	4.31%	+300 bp
Brookfield Prop 6.15% Ser. N	BPO.PR.N	Pfd-3H	P-3 (H)	\$26.29	\$1.537	5.85%	30-Jun-16	4.59%	+307 bp
Brookfield Prop 6.75% Ser. L	BPO.PR.L	Pfd-3H	P-3 (H)	\$26.20	\$1.680	6.41%	30-Sep-14	3.97%	+417 bp
Brookfield Renewable Energy 4.40% Ser 3	BRF.PR.C	Pfd-3H /	P-3 (H)	\$25.23	\$1.100	4.36%	31-Jul-19	4.43%	+294 bp
Brookfield Renewable Energy 5.25% Ser 1	BRF.PR.A	Pfd-3H /	P-3 (H)	\$25.70	\$1.313	5.11%	30-Apr-15	4.44%	+262 bp
Canaccord Financial Inc. 5.50% Ser A	CF.PR.A	Pfd-3L	NR	\$18.19	\$1.375	7.56%	30-Sep-16	15.28%	+321 bp
Canaccord Financial Inc. 5.75% Ser C	CF.PR.C	Pfd-3L	NR	\$18.81	\$1.438	7.64%	30-Jun-17	13.22%	+403 bp
Canadian Western Bank 7.25% Ser. 3	CWB.PR.A	Pfd-3L	NR	\$26.88	\$1.813	6.74%	30-Apr-14	2.49%	+500 bp
Capital Power Corp 4.60% Ser 1	CPX.PR.A	Pfd-3L	P-3	\$25.10	\$1.150	4.58%	31-Dec-15	4.50%	+217bp
Capital Power Corp 4.60% Ser 3	CPX.PR.C	Pfd-3L	P-3	\$24.90	\$1.150	4.62%	31-Dec-18	4.72%	+323 bp
Capstone Infrastructure 5.00% Ser B	CSE.PR.A	NR	P-4 (H)	\$19.40	\$1.25	6.44%	31-Jul-17	11.69%	+271 bp
Dundee Corp 6.75% Ser 2	DC.PR.B	NR	NR	\$26.11	\$1.69	6.46%	30-Sep-14	4.18%	+410 bp
Equitable Group Inc 7.25% Ser 1	ETC.PR.A	NR	NR	\$26.51	\$1.81	6.84%	30-Sep-14	3.74%	+453 bp
Fairfax Financial Hld 4.75% Ser E	FFH.PR.E	Pfd-3	P-3	\$22.40	\$1.188	5.30%	31-Mar-15	10.10%	+216 bp
Fairfax Financial Hld 5.00% Ser G	FFH.PR.G	Pfd-3	P-3	\$24.21	\$1.250	5.16%	30-Sep-15	6.33%	+256 bp
Fairfax Financial Hld 5.00% Ser I	FFH.PR.I	Pfd-3	P-3	\$25.00	\$1.250	5.00%	31-Dec-15	5.05%	+285 bp
Fairfax Financial Hld 5.00% Ser K	FFH.PR.K	Pfd-3	P-3	\$25.23	\$1.250	4.95%	31-Mar-17	4.79%	+351 bp
Fairfax Financial Hld 5.75% Ser C	FFH.PR.C	Pfd-3	P-3	\$26.07	\$1.438	5.51%	31-Dec-14	3.58%	+315 bp
First National Financial Corp 4.65% Ser 1	FN.PR.A	Pfd-3	N/A	\$16.98	\$1.163	6.85%	31-Mar-16	18.05%	+207 bp
GMP Capital Inc. 5.50% Ser B	GMP.PR.B	Pfd-3L	N/A	\$18.55	\$1.375	7.41%	31-Mar-16	15.96%	+289 bp
Innergex Renewable Energy Inc 5.00%	INE.PR.A	NR	P-3	\$23.75	\$1.25	5.26%	15-Jan-16	6.83%	+279 bp
Laurentian Bank 4.00% Ser 11	LB.PR.F	Pfd-3L	P-3 (H)	\$26.01	\$1.000	3.84%	15-Dec-17	3.17%	+260 bp
Nexen Inc. 5.00% Ser 2	NXY.PR.A	Pfd-3 /+	P-3/+	\$25.82	\$1.250	4.84%	31-Mar-17	4.19%	+359 bp
Northland Power Inc. 5.00% Ser 3	NPI.PR.C	NR	P-3	\$25.90	\$1.25	4.83%	31-Dec-17	4.22%	+346 bp
Northland Power Inc. 5.25% Ser 1	NPI.PR.A	NR	P-3	\$25.55	\$1.31	5.13%	30-Sep-15	2.29%	+280 bp
Riocan REIT 4.70% Series C (Int & ROC)	REI.PR.C	Pfd-3H	P-3 (H)	\$26.15	\$1.175	4.49%	30-Jun-17	3.61%	+318 bp
Riocan REIT 5.25% Series A (Int & ROC)	REI.PR.A	Pfd-3H	P-3 (H)	\$25.94	\$1.313	5.06%	31-Mar-16	4.05%	+262 bp
Rona Inc. 5.25% Ser 6 Class A	RON.PR.A	Pfd-3L	P-3	\$25.25	\$1.313	5.20%	31-Mar-16	4.96%	+265 bp
Shaw Comm Inc. 4.50% Ser A	SJR.PR.A	Pfd-3	P-3	\$25.45	\$1.125	4.42%	30-Jun-16	3.98%	+200 bp
Talisman Energy Inc 4.20% Ser 1	TLM.PR.A	Pfd-3H	P-3 (H)	\$24.80	\$1.050	4.23%	31-Dec-16	4.45%	+277 bp
TransAlta 4.60% Corp Ser A	TA.PR.D	Pfd-3	P-3	\$21.88	\$1.150	5.26%	31-Mar-16	9.16%	+203 bp
TransAlta 4.60% Corp Ser C	TA.PR.F	Pfd-3	P-3	\$24.04	\$1.150	4.78%	30-Jun-17	5.61%	+310 bp
TransAlta 5.00% Corp Ser E	TA.PR.H	Pfd-3	P-3	\$25.15	\$1.250	4.97%	30-Sep-17	4.89%	+365 bp
Transcontinental Inc 6.75% Ser. D	TCL.PR.D	Pfd-3	P-3 (H)	\$26.34	\$1.688	6.41%	15-Oct-14	4.52%	+416 bp
Veresen Inc 4.40% Ser A	VSN.PR.A	Pfd-3H	P-3 (H)	\$25.42	\$1.100	4.33%	30-Sep-17	4.04%	+292 bp

Source: Bloomberg, ScotiaMcLeod.

Fixed Floating Rate Preferred Shares



Description: This class of preferred share pays a fixed dividend until the reset date, which is typically also the call date. On that date, and every reset date thereafter, if the preferred share is not called, the holder has two options.

1. Locking in a fixed dividend until the next reset date. This rate will be determined by the issuer and will be announced at least 30-days before the reset date.
2. Exchanging to a floating rate preferred share. The floating rate is either a monthly or quarterly dividend depending on the issue and Prime is typically used as the reference rate for the dividend payments.

Investors have the option at each reset date, if the issue is not called, of switching back and forth between the two dividend options.

Redemption: Most fixed floaters are redeemable at the option of the issuer on the various call dates which coincide with the reset date when the investor may choose either a fixed or floating dividend.

Advantages: These issues are recommended for income investors who value the option of being able to re-set the dividend every five years to match their interest rate outlook. However, the new “rate reset” preferred shares now offer more transparency as the reset spread is set at issuance and known versus the fixed-floating rate preferred reset spread which is only announced by the issuer no less than 30 days before the reset date.

Risks: The main risk of investing in fixed floating rate preferred shares is that they are perpetual and subject to interest rate risk. Additionally, the issuer has a great degree of flexibility when resetting the fixed dividend rate.

Recommendations: Our most recent recommendations for the fixed floating category are the BCE Series AG (BCE.PR.G) and the BCE Series AF (BCE.PR.F). Please contact your ScotiaMcLeod advisor for current prices and yields.

What's New: BCE Inc.'s Series AA preferred shares (BCE.PR.A) had the dividend reset at 3.45% from the previous 4.80% as of September 1st, 2012. BCE. Inc. was required to pay an annual dividend rate greater than or equal to the 80% Government of Canada 5-year bond yield. Additionally BCE Inc. Series Z (BCE.PR.Z) had the dividend reset at 3.152% from the previous 4.331% as of December 1st, 2012. Due to the lower dividend rate the majority of the holders moved into the floating rate series (BCE.PR.Y) which has a dividend rate of 3.00%. Bombardier Inc. Ser 3 (BBD.PR.D) had its dividend reset based on 255% of the Government of Canada bond yield which equated to a new dividend rate of 3.134% from the previous 5.267% as of July 1st, 2012. This new dividend was drastically lower than the initial dividend rate and the security fell to reflect this information.

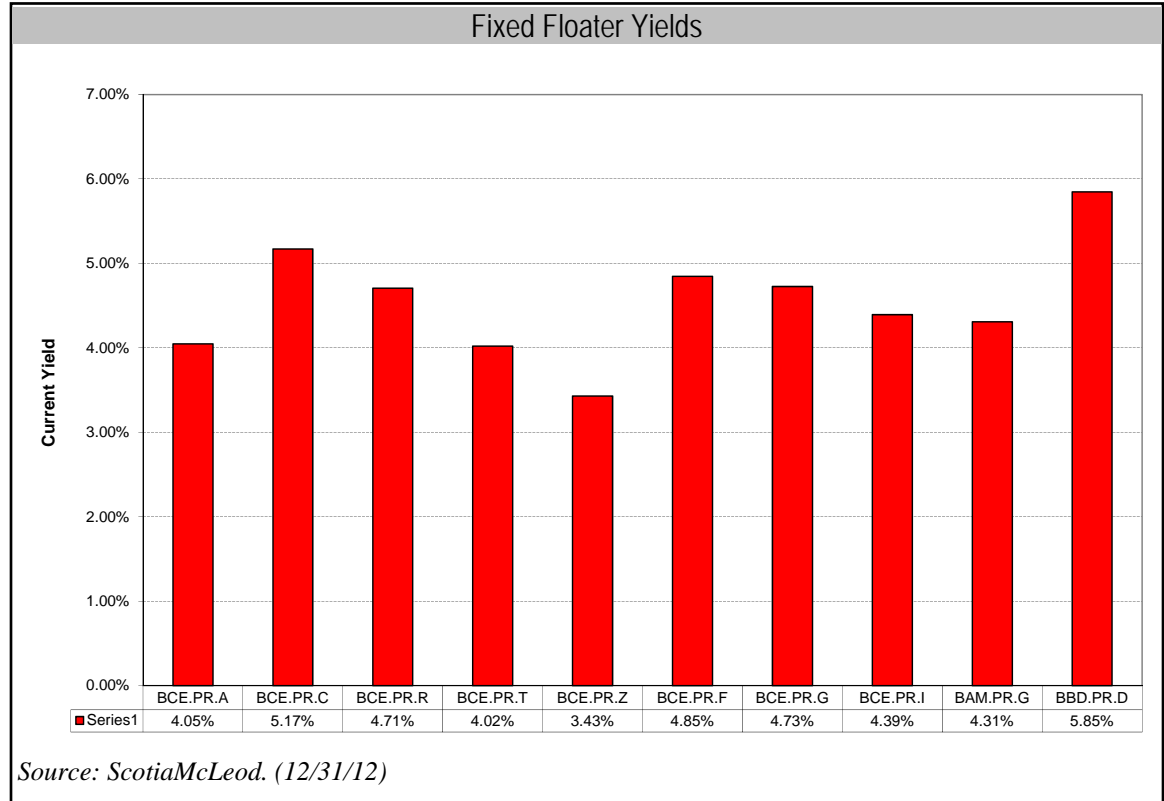
Overall, those fixed- floating rate preferred which were reset this year were reset at a lower dividend rate than the previous rate reflecting the low interest rate environment. The trend was for investors to move on a one-for-one basis to the floating rate security.

Fixed Floating Rate Preferred Share Table										
Issuer Investment Grade (P1-P2)	TSE Symbol	RATING			Price Dec 31/12	Div	Current Yield	REDEMPTION		
		DBRS	S&P					Reset Date	Yield to Reset	Reset Rate
BCE 3.45% Ser. AA	BCE.PR.A	Pfd-3H	P-2 (L)	\$21.32	\$0.863	4.05%	1-Sep-17	7.31%	>= 80% 5-yr CAN	
BCE 4.60% Ser. AC	BCE.PR.C	Pfd-3H	P-2 (L)	\$22.24	\$1.150	5.17%	1-Mar-13	105.64%	>= 80% 5-yr CAN	
BCE 4.49% Ser. R	BCE.PR.R	Pfd-3H	P-2 (L)	\$23.85	\$1.123	4.71%	1-Dec-15	6.43%	>= 80% 5-yr CAN	
BCE 3.393% Ser. T	BCE.PR.T	Pfd-3H	P-2 (L)	\$21.10	\$0.848	4.02%	1-Nov-16	8.13%	>= 80% 5-yr CAN	
BCE 3.152% Ser. Z	BCE.PR.Z	Pfd-3H	P-2 (L)	\$23.04	\$0.790	3.43%	1-Dec-17	5.05%	>= 80% 5-yr CAN	
BCE Inc. 4.541% Ser. AF	BCE.PR.F	Pfd-3H	P-2 (L)	\$23.43	\$1.135	4.85%	1-Feb-15	7.73%	>= 80% 5-yr CAN	
BCE Inc. 4.50% Ser. AG	BCE.PR.G	Pfd-3H	P-2 (L)	\$23.80	\$1.125	4.73%	1-May-16	6.03%	>= 80% 5-yr CAN	
BCE Inc. 4.15% Ser. AI	BCE.PR.I	Pfd-3H	P-2 (L)	\$23.62	\$1.038	4.39%	1-Aug-16	5.80%	>= 80% 5-yr CAN	
Brookfield Asset 3.80% S 9	BAM.PR.G	Pfd-2L	P-2	\$22.05	\$0.950	4.31%	1-Nov-16	7.62%	>= 80% 5-yr CAN	
Non-Investment Grade (P3-P4)										
Bombardier 3.134% Ser.3	BBD.PR.D	Pfd-4	P-4	\$13.40	\$0.784	5.85%	31-Jul-17	18.68%	>= 80% 5-yr CAN	

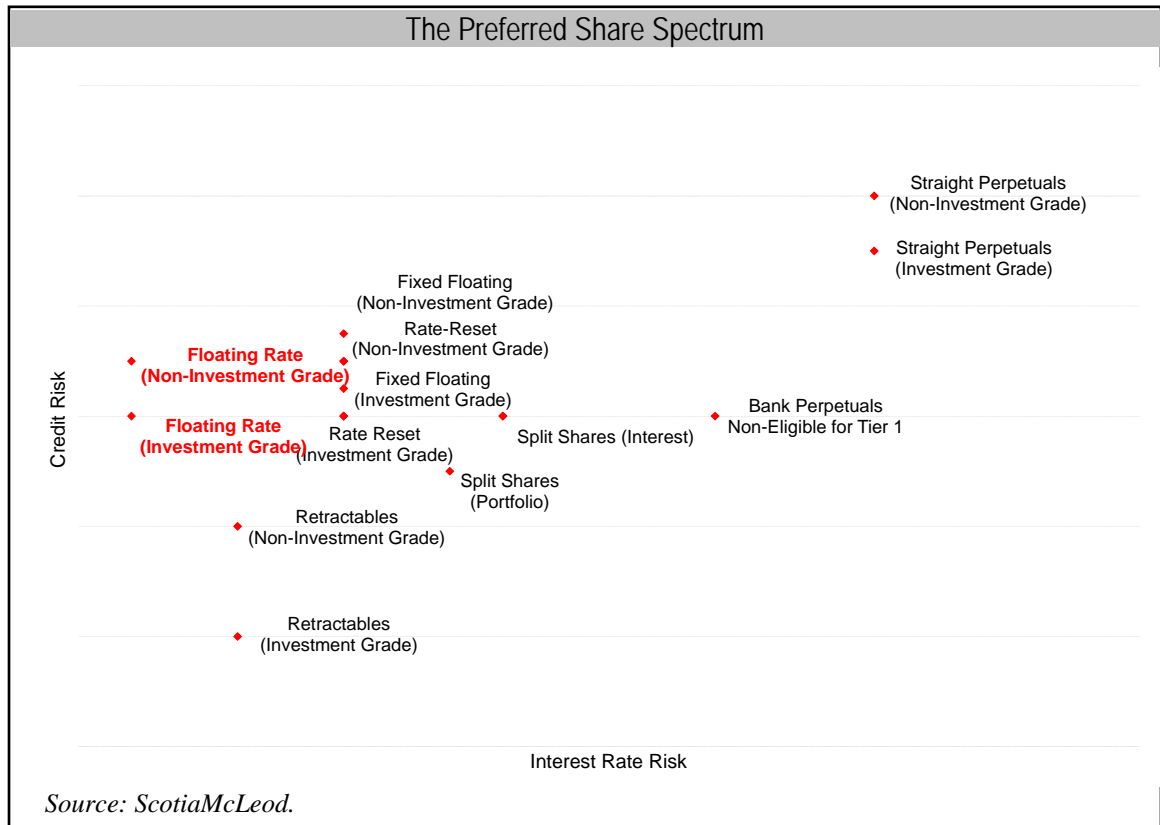
Source: Bloomberg, ScotiaMcLeod.

Fixed Floater Yield Commentary

This chart highlights the current yield as of December 31, 2012 of all the outstanding fixed floating preferred shares. Timing is an important consideration in purchasing these shares. Please contact your ScotiaMcLeod advisor for more information on these issues.



Floating Rate Preferred Shares



Description: Floating rate preferred shares pay dividends on a quarterly (and in some cases monthly) basis. The dividends float in relation to a reference rate, usually the Prime rate, although some may have a “floor” or minimum dividend. Another interesting feature many floating rate preferreds have is a ratcheting mechanism which raises or lowers the dividend on a monthly basis depending whether or not the preferred share trades within a specified price band.

Redemption: Shares are redeemable at the issuer’s option and holders do not have a retraction feature, which makes them perpetual in nature. Most of these shares are callable anytime at a set call price which is indicated in the table on the following page.

Advantages: Some of the issues trade below their par value due to low dividends or because the issuer has a poor credit rating. For the speculative preferred share investor this may provide an opportunity for capital gains if the issuer’s coverage ratios improve and the rating agencies upgrade the credit rating. Additionally, this type of preferred share should perform well in a rising interest rate environment as the dividend will begin increasing as Prime increases.

Risks: The risks surrounding this class of shares include credit risk, such that if the issuer has any difficulties paying the dividend, or if the issuer is downgraded by a rating agency. In addition, if interest rates are expected to decline, the monthly/quarterly income (dividend payments) may be reduced. With respect to the ratcheting mechanism, there is a risk that it is not significant enough to keep the preferred share trading close to its par value. Liquidity is another risk with this type of preferred share as there are often not a large number of shares outstanding causing prices to be volatile when holding this type of preferred share.

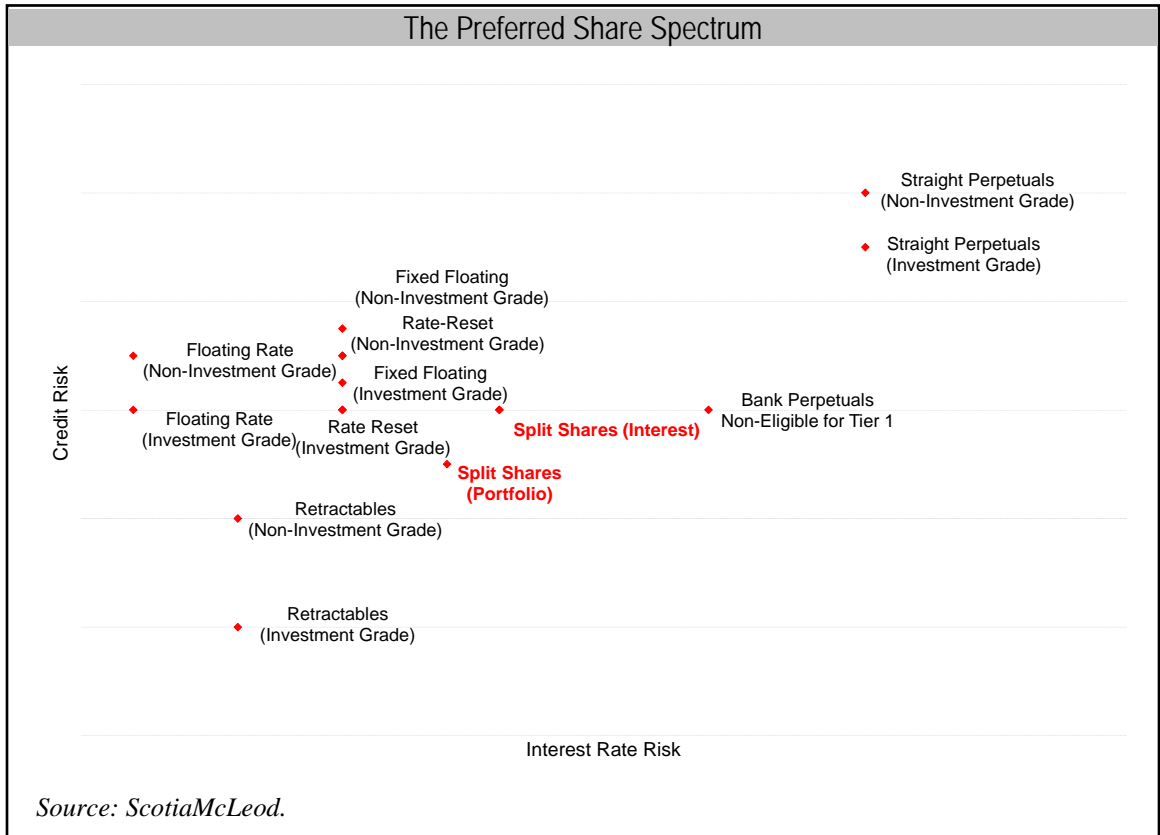
Recommendations: Investors looking to buy a floating rate preferred share should look towards high credit quality issues which pay a high percentage of Prime. Floating rate preferred shares which match this criteria include BCE Inc. Series B (BCE.PR.B) & BCE Inc. Series Y (BCE.PR.Y). Currently both of these issues pay the holder 100% of prime (3.00%) on a monthly basis. These shares tend to be relatively illiquid yet should perform well in times of rising interest rates as the dividends will rise with interest rates.

What's New: Empire Co. redeemed all of their outstanding Series 2 shares (EMP.PR.B) at a price of \$25.00 on January 31, 2012.

Floating Rate Preferred Share											
Issuer Investment Grade (P1-P2)	RATING			Price Dec 31/12	Exp Div Based on Last Pmt	Current Yield	Payment Frequency	Floating Rate	Reset Date	REDEMPTION	
	TSE Symbol	DBRS	S&P							Call Date	Call Price
BCE Inc. Ser. AB	BCE.PR.B	Pfd-3H	P-2 (L)	\$22.04	\$0.750	3.40%	Monthly	50% < 100% of Prime	1-Sep-17	ANYTIME	\$25.50
BCE Inc. Ser. AD	BCE.PR.D	Pfd-3H	P-2 (L)	\$22.22	\$0.750	3.38%	Monthly	50% < 100% of Prime	1-Mar-13	ANYTIME	\$25.50
BCE Inc. Ser. AJ	BCE.PR.J	Pfd-3H	P-2 (L)	\$22.95	\$0.750	3.27%	Monthly	50% < 100% of Prime	1-Aug-16	ANYTIME	\$25.50
BCE Inc. Ser. S	BCE.PR.S	Pfd-3H	P-2 (L)	\$22.20	\$0.750	3.38%	Monthly	50% < 100% of Prime	1-Nov-16	ANYTIME	\$25.50
BCE Inc. Ser. Y	BCE.PR.Y	Pfd-3H	P-2 (L)	\$22.05	\$0.750	3.40%	Monthly	50% < 100% of Prime	1-Dec-17	ANYTIME	\$25.50
BCE Inc. Series AE	BCE.PR.E	Pfd-3H	P-2 (L)	\$22.04	\$0.750	3.40%	Monthly	50% < 100% of Prime	1-Feb-15	ANYTIME	\$25.50
BCE Inc. Series AH	BCE.PR.H	Pfd-3H	P-2 (L)	\$22.29	\$0.750	3.36%	Monthly	50% < 100% of Prime	1-May-16	ANYTIME	\$25.50
Brookfield Asset A Ser. 4	BAM.PR.C	Pfd-2L	P-2	\$17.47	\$0.525	3.01%	Quarterly	70% of Prime	N/A	ANYTIME	\$25.00
Brookfield Asset A Ser. 2	BAM.PR.B	Pfd-2L	P-2	\$17.57	\$0.525	2.99%	Quarterly	70% of Prime	N/A	ANYTIME	\$25.00
Brookfield Asset A Ser. 8	BAM.PR.E	Pfd-2L	P-2	\$23.42	\$0.750	3.20%	Monthly	50% < 100% of Prime	1-Nov-16	ANYTIME	\$25.00
Brookfield Asset A Ser. 13	BAM.PR.K	Pfd-2L	P-2	\$17.57	\$0.525	2.99%	Quarterly	70% of Prime	N/A	ANYTIME	\$25.00
Brookfield Asset A Ser. 14	BAM.PR.L	Pfd-2L	P-2	\$114.05	\$1.921	1.68%	Monthly	63% of Prime	N/A	ANYTIME	\$100.00
Power Corp. 1986 Series	POW.PR.F	Pfd-2H	P-2 (H)	\$46.00	\$1.050	2.28%	Quarterly	70% of Prime	N/A	ANYTIME	\$50.00
Power Finl. Ser. A	PWF.PR.A	Pfd-1L	P-1 (L)	\$22.34	\$0.522	2.34%	Quarterly	70% of Prime	N/A	ANYTIME	\$25.00
Thomson Reuters Ser. II	TRI.PR.B	Pfd-2L	P-2	\$22.50	\$0.522	2.32%	Quarterly	70% of Prime	N/A	ANYTIME	\$25.00
Non-Investment Grade (P3-P4)											
Bombardier Ser. 2	BBD.PR.B	Pfd-4	P-4	\$13.31	\$0.750	5.63%	Monthly	50% < 100% of Prime	1-Aug-17	1-Aug-17	\$25.00
BPO Properties Ser. G	BPP.PR.G	Pfd-3	P-3	\$12.72	\$0.522	4.10%	Quarterly	70% of Prime	N/A	ANYTIME	\$25.00
BPO Properties Ser. J	BPP.PR.J	Pfd-3	P-3	\$12.91	\$0.522	4.04%	Quarterly	70% of Prime	N/A	ANYTIME	\$25.00
BPO Properties Ser. M	BPP.PR.M	Pfd-3	P-3	\$12.85	\$0.522	4.06%	Quarterly	70% of Prime	N/A	ANYTIME	\$25.00

Source: Bloomberg, ScotiaMcLeod.

Split Preferred Shares



Description: Split preferred shares are synthetic preferred shares that are based on an underlying portfolio of common shares or on a portfolio created from more diverse or complex financial instruments, including derivatives. In the most basic split preferred share the underlying portfolio allocates any capital appreciation to a capital share and all dividend income to a dividend (preferred) share. This class of preferred share is not without risk. The preferred payments by a split share corporation are merely a flow-through of distributions received on the portfolio of securities it holds. Therefore, if a split shares' underlying portfolio holding(s) cuts its dividend, or an event occurs which impairs the portfolio's ability to receive income, both the capital and preferred shares will likely drop in price. The preferred shares will then fall in price to a yield level where new investors feel adequately compensated for the risk of either another dividend cut, or, the possibility that they will not receive par value for the preferred at maturity. In general, splits that have a diversified portfolio are considered less risky than those based on a single common share. Split preferred shares are appropriate for investors looking for a steady income stream with a fixed term maturity. In many cases they offer yields above retractable and rate reset preferred shares for only a modest increase in risk.

Redemption: Split preferred shares can be redeemed by the issuer when a capital share is retracted without a preferred share (generally, one preferred share and one capital share together make up a whole unit). Most split shares have a special annual retraction date when holders of capital shares can retract them for very little or no cost. When this happens, the issuer must call in or redeem enough preferred shares to match the amount of capital shares retracted. Each split preferred shareholder has a proportionate amount of preferreds redeemed at par when this happens. This is not in the best interest of the preferred shareholder as their capital gets reduced and the projected future cash flows will be altered. Please refer to page 40 of this publication for the detailed notes of the redemption features pertaining to each issue.

Retraction: Split share preferreds are retractable on their own or in certain cases as a whole unit—a preferred share plus a capital share on a special annual retraction date. Details differ between issues and can be found on page 40.

Advantages: Split preferred shares offer a yield pickup over existing preferreds often without sacrificing credit quality. Additionally, split shares have a definitive maturity date and can be incorporated into a laddered portfolio.

Risks: The risks of split preferred shares include events that may impact the underlying portfolio's value. If the net asset value of the underlying portfolio falls substantially and remains at those levels until maturity, the investor may not receive the par value of their investment. Reviewing a split shares' *downside protection* is one approach to assess the risk level of the investment. Downside protection is the amount by which the market value of the underlying portfolio may fall before the ability to repay the par value of the preferred share is impeded. In addition, this type of preferred share is often less liquid than other preferred shares due to the lower number of shares outstanding.

Recommendations: Although there is an abundance of split shares outstanding investors should focus on those that have high credit quality providing at least 35% downside protection for the preferred share investors. Contact your ScotiaMcLeod advisor for a current list of recommendations.

What's New: There have been two new split shares that have come to market over the past year most of which were replacements to redeemed issues. R Split III Corp (RBS.PR.B) was created to provide investors with an exposure to common shares of the Royal Bank of Canada. Investors receive a fixed cumulative 4.25% dividend with a maturity date of May 31, 2017. This was a replacement for RBS.PR.A which was redeemed in May. Brompton Split Bank Corp (SBC.PR.A) issued \$13 million following the shareholders voting on extending the preferred shares for an additional five years to November 29, 2017. This security has a fixed dividend rate of 4.25%, and allows investors exposure to common shares of the 6 Canadian banks. There were also \$235 million worth of split share redemption over the year.

Split Share Commentary

The various split share yields demonstrate where the various issues trade in relation to other issues of the same type of split. However, the downside protection of each preferred should also be closely evaluated. There is often a reason why certain splits are trading with a very high yield as they may either have a lower credit rating or have less downside protection available for the preferred shareholder. Each split share is listed in the table below and on the following page which details all of the important information of each product.

Split Shares Based on a Single Common Share									
Issuer	TSE Symbol	RATING			RETRACTION			Downside Protection	
		DBRS	S&P	Price Dec 31/12	Div	Date	Price		Pre-tax YTR
Non-Investment Grade (P1-P2)									
BAM Split 4.35% Class AA	BNA.PR.C	Pfd-2L	N/A	\$24.43	\$1.088	10-Jan-19	25.00	4.81%	64.25%
BAM Split 4.85% Class AA Ser 5	BNA.PR.E	Pfd-2L	N/A	\$25.48	\$1.213	10-Dec-17	25.00	4.51%	64.25%
BAM Split 4.95% Class AA	BNA.PR.B	Pfd-2L	N/A	\$25.34	\$1.238	25-Mar-16	25.00	4.58%	64.25%
BAM Split 7.25% Class AA Ser 4	BNA.PR.D	Pfd-2L	N/A	\$26.23	\$1.813	9-Jul-14	25.00	3.90%	64.25%
BNS Split Corp. II 4.25%	BSC.PR.B	Pfd-2L	N/A	\$19.15	\$0.801	22-Sep-15	18.85	3.71%	63.73%
R Split III Corp. 4.25%	RBS.PR.B	Pfd-2L	N/A	\$13.86	\$0.578	31-May-17	13.60	3.89%	66.19%
TD Split Inc. Ser. C 4.75%	TDS.PR.C	Pfd-2	N/A	\$10.26	\$0.475	15-Nov-15	10.00	4.05%	66.58%
Non-Investment Grade (P3-P5)									
New Commerce Split 7.50% Class I	YCM.PR.A	#N/A N/A	N/A	\$5.34	\$0.375	1-Dec-14	5.00	3.88%	50.00%
New Commerce Split 7.50% Class II	YCM.PR.B	#N/A N/A	N/A	\$4.00	Discort	1-Dec-14	5.00	11.98%	5.66%
S Split Corp. 5.25%	SBN.PR.A	Pfd-3	N/A	\$10.52	\$0.525	1-Dec-14	10.00	2.51%	45.15%
SL Split Corp.	SLS.PR.A	Pfd-5	N/A	\$25.01	\$1.289	31-Jan-13	25.78	81.64%	4.52%
TDb Split Inc. 5.25%	XTD.PR.A	#N/A N/A	N/A	\$10.10	\$0.525	1-Dec-14	10.00	4.56%	21.51%

Source: Bloomberg, ScotiaMcLeod.

Split Shares Which Pay Interest									
Issuer	TSE Symbol	RATING			RETRACTION			Downside Protection	
		DBRS	S&P	Price Dec 31/12	Div	Date	Price		Pre-tax YTR
Non-Investment Grade (P1-P2)									
Utility Split Trust 5.25% Class B	UST.PR.B	Pfd-2L	N/A	\$10.65	\$0.525	31-Dec-16	10.00	3.22%	57.34%
Non-Investment Grade (P3-P5)									
Brookfield SoundVest	BSD.PR.A	Pfd-4L	N/A	\$9.55	\$0.600	31-Mar-15	10.00	8.35%	17.15%
Faircourt Split Trust	FCS.PR.B	Pfd-3L	N/A	\$10.37	\$0.625	31-Dec-14	10.00	5.20%	39.47%
Top 10 Split Trust 6.25%	TXT.PR.A	NR	N/A	\$12.64	\$0.781	30-Mar-16	12.50	5.93%	14.09%

Source: Bloomberg, ScotiaMcLeod.

Split Shares Based on an Underlying Portfolio of Common Shares

Issuer Non-Investment Grade (P1-P2)	TSE Symbol	RATING		Price Dec 31/12	Div	RETRACTION			Downside Protection
		DBRS	S&P			Date	Price	Pre-tax YTR	
5Banc Split Inc. 4.75% Class C	FBS.PR.C	Pfd-2L	N/A	\$10.79	\$0.475	15-Dec-13	10.00	-3.24%	62.62%
Allbanc Split Corp. 5.0%	ABK.PR.B	Pfd-2L	N/A	\$27.09	\$1.338	10-Mar-13	26.75	-0.13%	59.59%
Allbanc Split Corp. II 4.25%	ALB.PR.B	Pfd-2L	N/A	\$22.67	\$0.927	28-Feb-16	21.80	3.07%	55.49%
Big 8 Split Corp. Class B 7.00%	BIG.PR.B	Pfd-2	N/A	\$12.60	\$0.840	15-Dec-13	12.00	2.09%	63.37%
Big 8 Split Corp. Class C 5.75%	BIG.PR.C	Pfd-2	N/A	\$12.19	\$0.690	15-Dec-13	12.00	4.45%	63.37%
Big Bank Big Oil Split 5.25%	BBO.PR.A	Pfd-2L /-	N/A	\$10.38	\$0.525	16-Dec-16	10.00	3.97%	50.12%
First Asset CanBanc Split 6.50%	CBU.PR.A	Pfd-2	N/A	\$13.21	\$0.650	15-Jan-16	10.00	-3.57%	71.13%
New growth Corp. Ser 2 6.0%	NEW.PR.C	Pfd-2H	N/A	\$14.16	\$0.822	26-Jun-14	13.70	3.80%	71.72%
Non-Investment Grade (P3-P5)									
Brompton Lifeco Split	LCS.PR.A	Pfd-5H	N/A	\$9.90	\$0.525	30-Apr-14	10.00	5.90%	19.35%
Brompton Split Banc 4.50%	SBC.PR.A	Pfd-3H	N/A	\$10.32	\$0.450	30-Nov-17	10.00	3.66%	52.24%
Canadian Banc Recovery Corp	BK.PR.A	Pfd-3	N/A	\$10.56	\$0.500	1-Dec-18	10.00	3.90%	49.92%
Cdn. Life Companies 2012 Pref 6.25%	LFE.PR.B	N/A	N/A	\$9.99	\$0.625	1-Dec-18	10.00	6.33%	20.06%
Copernican Intl Finl. Split	CIR.PR.A	N/A	N/A	\$4.74	\$0.500	2-Dec-13	10.00	100.50%	-84.84%
Copernican World Banks	CBW.PR.A	NR	N/A	\$3.70	\$0.525	2-Dec-13	10.00	138.03%	-140.38%
Dividend 15 Split 5.25%	DFN.PR.A	Pfd-3	N/A	\$10.24	\$0.525	1-Dec-14	10.00	3.79%	44.38%
Dividend 15 Split II 5.25%	DF.PR.A	Pfd-3L	N/A	\$10.26	\$0.525	1-Dec-14	10.00	3.68%	32.48%
Dividend Growth Split 5.25%	DGS.PR.A	Pfd-3	N/A	\$10.27	\$0.525	30-Nov-14	10.00	4.08%	40.72%
Financial 15 Split 5.25%	FTN.PR.A	Pfd-4H	N/A	\$10.20	\$0.525	1-Dec-15	10.00	4.57%	32.80%
Financial 15 Split II 5.25%	FFN.PR.A	Pfd-4H	N/A	\$10.30	\$0.525	30-Dec-14	10.00	3.54%	28.37%
Life & Banc Split Corp. 5.25%	LBS.PR.A	Pfd-3L	N/A	\$10.20	\$0.525	29-Nov-13	10.00	2.17%	39.06%
Mulvihill Premium Bank 5.75%	PIC.PR.A	NR	N/A	\$15.35	\$0.863	1-Nov-17	15.00	5.46%	27.92%
Prime Dividend(Prime+75 Bps)	PDV.PR.A	Pfd-3	N/A	\$10.49	\$0.500	1-Dec-18	10.00	4.03%	38.91%
US Financial 15 Split 2012 Pref 5.25%	FTU.PR.B	N/A	N/A	\$4.55	\$0.263	1-Dec-18	10.00	22.13%	-95.31%
World Financial Split 5.25%	WFS.PR.A	NR	N/A	\$9.10	\$0.525	30-Jun-18	10.00	7.29%	9.26%

Source: Bloomberg, ScotiaMcLeod.

Split Preferred Shares Retraction Features

1. **Allbanc Split Corp. II** can be redeemed by the company at par (\$26.75) on the annual retraction date (March) to the extent that capital shares have been retracted without a matching amount of preferred shares. The preferred shares can be retracted on a monthly basis for a payment equal to 95% of the unit value less the cost of purchasing a Capital Share in the market, less \$1.00.
2. **Allbanc Split Corp. II** can be redeemed by the company at par on the annual retraction date (February) to the extent that capital shares have been retracted without a matching amount of preferred shares. The preferred shares can be retracted on a monthly basis for the amount by which 95% of the Unit Value exceeds the aggregate of i) the average cost to the company, including commissions, of purchasing two capital shares in the market; and ii) \$1.00.
3. **Big Bank Big Oil Split Corp.** preferred shares can be surrendered for retraction at any time but will be retracted only on the second last business day of each month. Shareholders retracting preferred shares will receive 96% of the lesser of i) the NAV per Unit less the cost to the company to purchase a capital share for cancellation, and ii) \$10.00. A preferred shareholder may concurrently retract an equal number of preferred and capital shares on the second last business day in December of each year at a retraction price equal to the NAV per Unit on that date, less any cost associated with the retraction.
4. **Big 8 Split Corp. Inc.** (BIG.PR.A, BIG.PR.C) preferred shares may be redeemed by the company on the special annual retraction (December) at par (\$25.00) to the extent that capital shares are retracted. Preferred shares may also be retracted at any time at a cash price per preferred equal to the amount by which 95% of the unit value exceeds the aggregate of i) the average cost to the company including commissions of buying a capital share in the market and ii) \$1.00. A holder who surrenders one Preferred Share together with one Capital Share will receive an amount equal to 95% of the Unit Value less \$1.00.
5. **The BAM Split Corp. Class AA 4.95%** (BNA.PR.B) preferred shares can be retracted any time for an amount equal to the lesser of i) 95% of the NAV per unit and ii) \$25.00 less 5% of the NAV per unit, in either case less \$1.00. Callable by the company at any time prior to redemption at a price equal to \$26.00 from March 25, 2009 until March 25, 2016 and then the price will decline by \$0.25 per year until March 25, 2016 at which time the redemption price will be \$25.00.
6. **The BAM Split Corp Class AA 4.35%** (BNA.PR.C) preferred shares can be retracted at any time. A holder retracting will receive a number of debentures (Series 1) as payment for the shares. The retraction price will be equal to the lesser of (i) Net Asset Value per Unit and (ii)\$25.00. The Series 1 Debentures will be issued by the Company and have a principal amount of \$25.00 and will mature on January 10, 2019. The Preferred Shares are callable by the company at any time on or after January 10, 2012 at a price of \$26.00 until January 9, 2016, and then the price will decline by \$0.25 per year.
7. **The BAM Split Corp Class AA Series 4** (BNA.PR.D) preferred shares can be retracted at any time. A holder retracting will receive a number of debentures (Series 2) as payment for the shares. The retraction price will be equal to the lesser of (i) Net Asset Value per Unit and (ii)\$25.00. The Series 2 Debentures will be issued by the Company and have a principal amount of \$25.00 and will mature on July 9, 2014. The Preferred Shares are callable by the company at any time at a price of \$26.00 plus accrued and unpaid dividend.
8. **The BAM Split Corp Class AA Series 5** (BNA.PR.E) preferred shares can be retracted at any time. A holder retracting will receive a number of debentures (Series 3) as payment for the shares. The retraction price will be equal to the lesser of (i) Net Asset Value per Unit and (ii)\$25.00. The Series 3 Debentures will be issued by the Company and have a principal amount of \$25.00 and will mature on December 10, 2017. The Preferred Shares are callable by the company at any time on or after December 10, 2015 and prior to December 10, 2017 at a price of \$25.50 plus accrued and unpaid dividend until December 10, 2016. The redemption price will decline by \$0.25 each year thereafter to \$25.00. Additionally, the Company can redeem the shares anytime at \$26.00 plus accrued and unpaid dividends if capital shares have been retracted
9. **BNS Split Corp. II** preferred shares can be surrendered for retraction at any time for an amount if any, by which 95% of the Unit Value exceeds the aggregate of (i) the average cost to the Company, including commissions, of purchasing two Capital Shares in the market; and (ii) \$1.00. The company may also redeem the shares on the special annual retraction date (September) at \$18.85 to the extent that unmatched capital shares are retracted. Preferred shares can also be redeemed by the company prior to the redemption date at a price, which until September 22, 2011 will be \$19.60 and which will decline by \$0.1875 each year to equal \$18.85 after September 22, 2014.
10. **Brookfield Soundvest Rising Distribution Split Trust** preferred securities can be redeemed with capital units under the annual retraction at least 15 days before the last business day in November. The redemption value will equal the Combined Value less redemption costs.
11. **Brompton Lifeco Split Corp** preferred shares can be surrendered at anytime for retraction and holder are entitled on a monthly basis to receive a retraction price per share equal to 96% of the lesser of (i) the NAV per Unit determined as of the relevant Retraction Date, less the cost to the Company of the purchase of a Class A Share for cancellation, and (ii) \$10.00. Under the Annual Concurrent retraction a holder can retract an equal number of Preferred Shares and Class A Shares on the April Retraction Date of each year for a retraction price per Unit to the NAV per Unit on that date.
12. **Brompton Split Banc Corp.** preferred shares can be retracted concurrently with capital shares on the annual retraction date each December. A holder tendering an equal number of preferred and capital shares will receive a price equal to NAV per Unit on that date, less any costs associated with the retraction. As for the monthly retraction holder will receive a retraction price per share equal to 96% of the lesser of (i) the NAV per Unit determined as of the relevant Retraction Date less the cost to the Company of the purchase of a Class A Share for cancellation, and (ii) \$10.00.

Split Preferred Shares Retraction Features (cont'd)

13. **Canadian Banc Recovery Corp.** preferred shares can be retracted at any time on a monthly basis. Investors retracting preferred shares will receive an amount per preferred equal to the lesser of i) \$10.00; and ii) 96% of the NAV as of the retraction date less the cost to the Company of the purchase of a Class A share in the market for cancellation. Each July shareholders can concurrently retract a Preferred Share and a Capital Share on the retraction date and will be entitled to receive an amount equal to the NAV per Unit less any commissions and other costs (to a maximum of 1% of the NAV per unit) related to liquidating the Portfolio to pay such redemption amount.
14. **Canadian Financials & Utilities Split** preferred shares can be retracted on a monthly basis for the amount equal to 96% of the lesser of (i) the NAV per Unit determined as of the relevant Retraction Date less the cost to the Company of the purchase of a Class A Share for cancellation, and (ii) \$10.00. A holder of a Preferred Share may concurrently retract an equal number of Preferred Shares and Class A Shares on the Annual Retraction Date of each year (January) at a retraction price equal to the NAV per Unit on that date, less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the Portfolio required to fund such retraction.
15. **Canadian Life Companies Split** preferred shares can be retracted on a monthly basis for the amount per preferred share equal to the lesser of i) \$10.00; and ii) 96% of the Net Asset Value determined as of the retraction date less the cost to the company of the purchase of a Class A Share in the market for cancellation. Shareholders who concurrently retract a Preferred Share and a Class A Share on the Retraction Date in the month of March in each year will be entitled to receive an amount equal to the Net Asset Value per Unit calculated as of that date, less any related commissions and other costs (to a maximum of 1% of the Net Asset Value per Unit) related to liquidating the Portfolio to pay such redemption amount.
16. **The Copernican World Banks Split Inc.** preferred shares can be retracted monthly for the Preferred Share Net Amount Receivable on Monthly Redemption and redemptions are subject to a fee, as detailed in the prospectus. A holder of a preferred and capital share may concurrently retract both in November of each year for an amount equal to the Net Amount Receivable on Concurrent Annual Redemption and is also subject to a fee.
17. **The Copernican International Financial Split Inc.** preferred shares can be retracted monthly and holders will receive the Preferred Share Net Amount Receivable on Monthly Redemption and will be subject to a redemption fee, which is detailed in the prospectus. Holders of Preferred Shares also have an annual redemption right under which they may concurrently redeem an equal number of Preferred Shares and Class A Shares on the Redemption Date in June of each year. The amount received per Unit by the redeeming Shareholder for such a concurrent redemption will be equal to the Net Amount Receivable on Concurrent Annual Redemption and is also subject to a fee.
18. **Dividend 15 Split Corp.** preferred shareholders can retract their holdings on a monthly basis at the lesser of i) \$10.00; and ii) 96% of the NAV per unit less the cost to the Company of the purchase of a Class A share in the market and any related commissions and other costs. Under the Special Annual Concurrent Retraction a preferred shareholder can retract an equal amount of preferred and Class A shares in August each year for an amount equal to the NAV less any commissions and other costs related to liquidating the portfolio to pay such an amount.
19. **Dividend 15 Split Corp.II** preferred shareholders can retract their holdings on a monthly basis at the lesser of i) \$10.00; and ii) 96% of the NAV per unit less the cost to the Company of the purchase of a Class A share in the market. Holders may concurrently retract a preferred and Class A share in August for an amount equal to the NAV.
20. **Dividend Growth Corp.** preferred shareholders may retract their holdings on a monthly basis for an amount equal to 96% of the lesser of (i) the NAV per Unit determined as of the relevant Retraction Date, less the cost to the Company of the purchase of a Class A Share for cancellation, and (ii) \$10.00. A holder of a Preferred Share may concurrently retract an equal number of Preferred Shares and Class A Shares on a Quarterly Retraction Date at a retraction price equal to the NAV per Unit on that date, less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the Portfolio required to fund such retraction.
21. **5Banc Split Inc.** preferred shares are retractable at any time at a cash price equal to the amount by which 95% of the Unit Value exceeds the aggregate of i) the average cost to the company of purchasing a Capital Share in the market ; and ii) \$0.40. The Company can call shares at \$10.00 per share to the extent that unmatched capital shares have been tendered for retraction on the annual retraction date of December 15 each year.
22. **Faircourt Split Trust** preferred securities surrendered together with an equal number of Units for redemption will receive payment for each Combined Security equal to the Combined Value determined as of the Redemption Date, less redemption costs.
23. **Financial 15 Split Corp.** preferred shares can be retracted monthly for an amount per preferred share equal to the lesser of a) \$10.00 and b) 96% of the NAV per Unit less the cost to the Company to purchase Class A shares in the market. Each October shareholders can concurrently retract a preferred share with a Class A share on the Retraction Date for an amount equal to the NAV.

Split Preferred Shares Retraction Features (cont'd)

24. **Financial 15 Split Corp.** II preferred shares can be retracted any time for an amount per preferred share equal to the lesser of a) \$10.00 and b) 96% of the Net Asset Value per unit as of the Retraction Date less the cost to the company to purchase a Class A Share in the market for cancellation. Shareholders who concurrently retract a Preferred Share and a Class A Share on the Retraction Date in October will be entitled to receive an amount equal to the Net Asset Value per Unit on that date less any related commissions and other costs (to a maximum of 1% of the Net Asset Value per Unit).
25. **US Financial 15 Split Corp.** preferred shares can be retracted any time for an amount per preferred share equal to the lesser of a) \$10.00 and b) 96% of the Net Asset Value per unit as of the Retraction Date less the cost to the company to purchase a Class A Share in the market for cancellation. Shareholders who concurrently retract a Preferred Share and a Class A Share on the Retraction Date in February will be entitled to receive an amount equal to the Net Asset Value per Unit on that date less any related commissions and other costs (to a maximum of 1% of the Net Asset Value per Unit).
26. **First Asset CanBanc Split Corp** preferred shareholders may retract their shares on a monthly basis for an amount equal to the lesser of (i) 95% of the NAV per Unit determined as of the relevant Retraction Date less the pro rata portion of the Note then outstanding and less the cost to the Company of the purchase of a Class A Share for cancellation, and (ii) \$10.00. A holder of a Preferred Share may concurrently retract an equal number of Preferred Shares and Class A Shares on the second last Business Day of January of each year, commencing in January 2010, at a retraction price equal to the NAV per Unit on that date, less the pro rata portion of the Note then outstanding and less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the Portfolio required to fund such retraction.
27. **Life & Banc Split Corp.** preferred shares can be retracted at any time but will be retracted only on a monthly Retraction Date. Shareholders retracting preferred shares will receive 96% of the lesser of i) the NAV per Unit less the cost to the company to purchase a capital share for cancellation, and ii) \$10.00. A preferred shareholder may concurrently retract an equal number of preferred and capital shares tendered at least ten business days before the Annual Retraction Date in November of each year at a retraction price equal to the NAV per Unit on that date, less any cost associated with the retraction.
28. **Mulvihill Premium Canadian Bank** preferred shares are retractable monthly and holders will be entitled to receive a retraction price per share equal to 96% of the less of (i) the NAV per unit less the cost to the company of the purchase of a capital share in the market for cancellation and (ii) \$15.00. The cost of the purchase of a Class A Share will include the purchase price of the Class A Share, commission and such other costs, if any, related to the liquidation of any portion of the Portfolio to fund such purchase. A holder of Preferred Shares may concurrently retract an equal number of Preferred Shares and Class A Shares on the October Valuation Date of each year, at a retraction price equal to the NAV per Unit on that date.
29. **NewGrowth Corp.** preferred shares are redeemable annually on June 26th at \$13.70 to the extent the Class A capital shares are retracted under the special annual retraction. Retractable at any time at a price equal to the amount that 95% of the NAV of the unit exceeds the sum of the average cost of buying a capital share in the market including commissions and \$1.00. Under a concurrent annual retraction of a preferred and capital share the holder will receive full value of the unit.
30. **Prime Dividend Corp.** preferred shares can be retracted at any time on a monthly basis and will receive an amount per preferred share equal to the lesser of i) \$10.00; and ii) 96% of the Net Asset Value determined as of the retraction date, less the cost to the company of the purchase of a Class A Share in the market for cancellation. Shareholders may concurrently retract a Preferred Share and a Class A Share on the annual retraction date will receive NAV less any related commissions and other costs (to a maximum of 1% of the NAV per unit), related to liquidating the Portfolio to pay such redemption amount.
31. **R Split III Corp** preferred shareholders can retract shares any time for an amount by which 95% of the Unit Value exceeds the aggregate of i) the average cost to the Company, including commissions, of purchasing two Capital shares in the market; and ii) \$1.00. Under a Concurrent Retraction a holder who surrenders two Capital shares together with one preferred share will receive an amount equal to 95% of the Unit Value less \$1.00. A holder who surrenders two Capital Shares together with one preferred share under a Special Annual Retraction (May) will receive an amount equal to the Unit Value.
32. **S Split Corp** shareholders have a fee associated with retracting a Preferred Share or Class A share prior to July 2014 which can be found in the prospectus. Preferred shareholder have a monthly retraction option and will be entitled to receive a price equal to 95% of the lesser of (i) the NAV per Unit determined as of the relevant Valuation Date less the cost to the Company of the purchase of a Class A Share in the market for cancellation; and (ii) \$10.00. A holder of Preferred Shares may concurrently retract an equal number of Preferred Shares and Class A Shares on the Annual Valuation Date (June) at a retraction price equal to the NAV per Unit on that date, less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the Company's portfolio required to fund such retraction.
33. **SL Split Corp** preferred shares maybe surrendered for retraction at any time for a cash price equal to the amount, if any, by which 95% of the Unit Value exceeds the aggregate of (i) the average cost to the Company, including commissions, of purchasing two Capital Shares in the market; and (ii) 1.00. Preferred Shares may also be redeemed by the Company at any time prior to the Redemption Date at a price (the "Premium Redemption Price") which, until January 31, 2009 will be equal to \$26.82 and which will decline by \$0.26 each year to be equal to \$25.78 after January 31, 2012. The Company may also redeem Preferred Shares on any Annual Retraction Payment Date at a price per share equal to \$25.78 to the extent that unmatched Capital Shares have been tendered for retraction under the Special Annual Retraction.

Split Preferred Shares Retraction Features (cont'd)

- ^{34.} **TD Split Inc.** preferred shares are redeemable at par (\$10.00) on the annual retraction date, November 15th of each year, to the extent that capital shares are tendered for retraction without a preferred share. Preferreds are also retractable at any time with the holder receiving an amount by which 95% of the Unit Value exceeds the aggregate of i) the average cost to the Company, including commissions, of purchasing a capital share in the market; and ii) \$1.00.
- ^{35.} **TDb Split Inc** 5.25% have a monthly retraction feature where holders will receive an amount per Preferred Share equal to the lesser of (i) \$10.00; and (ii) 96% of the net asset value per Unit determined as of the Retraction Date less the cost to the Company of the purchase of a Class A Share in the market for cancellation. Shareholders who concurrently retract a Preferred Share and a Class A Share on the Retraction Date in the month of December in each year will be entitled to receive an amount equal to the net asset value per Unit calculated as of that date.
- ^{36.} **Top 10 Split** Trust Preferred Securities can be concurrently retracted with Capital Units under a monthly retraction of 95% equal to the less of: (i) The combined value less \$0.50; and (ii) the Combined Security Market Price.
- ^{37.} **Utility Split Trust** preferred shareholders may surrender a Preferred Security for repayment together with a Capital Unit under the Concurrent Annual Redemption (April) terms for proceeds equal to the redemption proceeds per combined security less the aggregate of all brokerage fees, commissions and other costs relating to the disposition of securities in the portfolio to fund such redemption.
- ^{38.} **World Financial Split Corp.** preferred shares can be retracted at any time on a monthly valuation date and holders will receive 96% of the lesser of i) the NAV per Unit less the cost to the company of purchasing a Class A share in the market; and ii) \$10.00. Under the Annual Concurrent Retraction a holder may retract one preferred share together with one Class A share in June of each year for a price equal to the NAV on that date.

Source: Company Prospectuses.

Appendices

Appendix I – Preferred Share Glossary

Cumulative: If a company's Board of Directors votes not to pay a dividend on a cumulative preferred share when due, the unpaid dividends accumulate. All the accrued and unpaid dividends on the cumulative preferred share must be paid before dividends can be paid on the common. This type of preferred is considered a safer and more conservative investment than a non-cumulative share.

Current Yield: Yield calculated by dividing the annual dividend of the preferred share by its current price. This calculation is often used to compare perpetual preferred shares as they have no maturity date.

DBRS: Dominion Bond Rating Service—an agency that provides objective rating opinions on the credit worthiness of investments such as bonds and preferred shares. This firm's rating scale for preferred shares ranges from Pfd-1—superior credit quality, to Pfd-5—speculative credit quality, and includes the rating D (defaulted) for preferred shares which have stopped paying dividends. Their website provides free rating information and commentary. (www.dbrs.com)

Dividend Gross-up: Canadian corporations pay dividends out of after-tax income. In order to integrate the taxes paid by corporations and individuals and avoid double taxation, dividends received by individuals are “grossed-up” by 25% to increase the amount on which tax is paid. The dividend tax credit is then applied to the “grossed-up” amount to refund an amount equal to the tax that is paid, in theory, by the corporation paying the dividend.

Downside Protection: The amount by which the market value of the underlying portfolio may fall before the ability to repay the par value of the preferred share is impeded. It is calculated as follows: (Net Asset Value of Capital share / Net Asset Value Per Unit).

Fixed Rate: Also known as a **straight perpetual preferred**, these shares pay a fixed dividend and their share price will move inversely to interest rates. These preferreds tend to behave like long dated bonds in a period of falling interest rates—the fixed dividend becomes more attractive as rates fall.

Non-cumulative: Dividends on this type of preferred share do not accrue if the Board of Directors chooses not to pay dividends when due. Non-cumulative preferred shares are generally less attractive than cumulative preferreds. Most financial services preferred shares are non-cumulative.

Par Value: The stated face value of a preferred share is usually \$25.00. Par value of a preferred share indicates the dollar amount of assets each share would be entitled to should the company be liquidated.

Pre-Tax Interest Equivalent Yield: Pre-tax interest equivalent yield equates the dividend yield on a preferred to a yield that is comparable to that on a bond. Since dividend income and interest income are taxed at different rates, the dividend yield should be adjusted by the differential in dividend and income tax rates (the pre-tax interest equivalent multiplier) to produce a pre-tax interest equivalent yield. This is the pre-tax yield required on a bond to provide the same yield as that on a preferred share (of similar maturity) on an after-tax basis. For example, a preferred share trading at par with a dividend yield of 4% has a pre-tax interest equivalent yield of 5.24% in Ontario ($4.00\% \times 1.31$, the pre-tax interest equivalent multiplier for Ontario). Therefore, a bond of similar credit quality would have to offer a yield of 5.24% to provide the same after tax yield as a preferred share yielding 4.00%.

Ratchet Mechanism: A ratchet mechanism is intended to keep the price of a floating rate preferred share within a certain range of its par value. This is achieved by adjusting the dividend higher if the share price falls substantially below par or reducing the dividend if the price rises above par.

Redeemable: Also known as callable, this feature allows the issuer to redeem the preferred share at a price on a specified date, occasionally at a premium to par value.

S&P: Standard and Poor's—an agency which gives objective rating opinions on bonds and preferred shares. Its rating scale on preferred shares ranges from the highest rating P-1 High (securitized preferred shares), to P-5 (speculative with poor asset coverage). Most bank preferred shares carry a P-1 Low rating which would equate to an A- rating in the bond rating scale. Their website provides ratings on many Canadian issuers. (www.standardandpoors.com)

Soft Redeemable: This feature allows the issuer to redeem the preferred shares at the various call dates and pay either cash or common shares for redemption.

Yield to Retraction: Yield to retraction (or yield to maturity) describes the return that includes dividends and any capital gains or losses that may be realized by the investor if the shares are held to the retraction or maturity date.

Yield to Worst Call: Yield to worst call refers to the lowest yield an investor will earn at the given market price (before commissions) if the issuer redeems the preferred share at an early redemption date (also known as the “call” date).

Appendix II – Proposed Tax Rate Tables for 2013

Proposed Marginal Tax Rates for Interest – Year 2013							
Province	Brackets (\$)	Up to \$43,561	Brackets (\$)	\$43,561 to \$87,123	Brackets (\$)	\$87,123 to \$135,054	\$135,054 and over
Alberta	0	25.00%	43,561	32.00%	87,123	36.00%	39.00%
British Columbia	37,568	22.70%	86,268	34.29%	104,754	40.70%	
	0	20.06%	75,138	32.50%	87,123	38.29%	43.70%
			43,561	29.70%			
Manitoba	31,000	27.75%	67,000	39.40%	87,123	43.40%	46.40%
	0	25.80%	43,561	34.75%			
New Brunswick	38,954	27.10%	77,908	34.40%	126,662	40.30%	43.30%
	0	24.10%	43,561	34.10%	87,123	38.40%	
Newfoundland	33,748	27.50%	67,496	35.30%	87,123	39.30%	42.30%
	0	22.70%	43,561	34.50%			
Nova Scotia	29,590	29.95%	59,180	38.67%	93,000	43.50%	46.50%
	0	23.79%	43,561	36.95%	87,123	42.67%	
Ontario			82,422	39.41%			
	39,723	24.15%	79,448	35.39%	87,123	43.41%	46.41%
	0	20.05%	69,963	32.98%			
			43,561	31.15%			
Prince Edward Island	31,984	28.80%	63,969	38.70%	98,145	44.37%	47.37%
	0	24.80%	43,561	35.80%	87,123	42.70%	
Quebec	41,095	32.53%	80,200	42.37%	100,000	47.46%	49.97%
	0	28.53%	43,561	38.37%	87,123	45.71%	
Saskatchewan	42,906	28.00%	43,561	35.00%	122,589	41.00%	44.00%
	0	26.00%			87,123	39.00%	
Yukon	0	22.04%	81,888	32.16%	87,123	38.01%	42.40%
			43,561	31.68%			

Note: These are current rates but while proposed are legislative and subject to change following new provincial rate announcements.
Source: TaxTips.ca

Proposed Marginal Tax Rates for Dividends– Year 2013

Province	Brackets (\$)	Up to \$43,561	Brackets (\$)	\$43,561 to \$87,123	Brackets (\$)	\$87,123 to \$135,054	\$135,054 and over
Alberta	0	-0.03%	43,561	9.63%	87,123	15.15%	19.29%
British Columbia	37,568	-3.20%	86,268	12.79%	104,754	21.64%	25.78%
	0	-6.84%	75,138	10.32%	87,123	18.31%	
Manitoba	31,000	6.53%	67,000	22.60%	87,123	28.12%	32.26%
		3.84%	43,561	16.19%			
New Brunswick	38,954	0.11%	77,908	10.18%	126,662	18.33%	22.47%
		-4.03%	43,561	9.77%	87,123	15.70%	
Newfoundland	33,748	2.04%	67,496	12.81%	87,123	18.33%	22.47%
		-4.58%	43,561	11.70%			
Nova Scotia	29,590	8.39%	59,180	20.42%	93,000	27.09%	31.23%
		-0.11%	43,561	18.05%	87,123	25.94%	
Ontario	39,723	3.77%	82,422	19.88%	87,123	25.40%	29.54%
			79,448	17.52%			
			69,963	14.19%			
Prince Edward Island	31,984	4.53%	63,969	18.19%	98,145	24.56%	28.70%
			43,561	14.19%	87,123	23.71%	
			80,200	24.74%	100,000	31.77%	
Quebec	41,095	11.16%	43,561	19.22%	87,123	29.35%	35.22%
		5.64%	43,561	12.39%	122,589	20.67%	
Saskatchewan	42,906	2.73%	87,123	17.91%	87,123	17.91%	24.81%
		-0.03%					
Yukon	0	-11.12%	81,888	1.81%	87,123	9.88%	15.93%
			43,561	2.18%			

Note: These are current rates but while proposed are legislative and subject to change following new provincial rate announcements.

Source: TaxTips.ca

Proposed Multipliers for Highest Tax Bracket Investors

Province	Factor	Province	Factor
Alberta	1.3231	Nova Scotia	1.2788
British Columbia	1.3183	Ontario (\$135,054 - \$509,000)	1.3148
Manitoba	1.2638	Prince Edward Island	1.3547
New Brunswick	1.3674	Quebec	1.2948
Newfoundland	1.3437	Saskatchewan	1.3427
		Yukon	1.4595

Note: These are current rates but while proposed are legislative and subject to change following new provincial rate announcements.

Source: TaxTips.ca

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Notes

Important Disclosures

This report has been prepared by members of the ScotiaMcLeod Portfolio Advisory Group. ScotiaMcLeod is the full service retail division of Scotia Capital Inc

*The author(s) of the report own(s) securities of the following companies.
Bank of Nova Scotia, Brookfield Office Properties,*

*The supervisors of the Portfolio Advisory Group own securities of the following companies.
Bank of Nova Scotia,*

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David A. Dodge is a director of Canadian Utilities Limited and is a director of the Bank of Nova Scotia. Canadian Utilities Limited

Ronald Brenneman is a director of BCE Inc and is a director of the Bank of Nova Scotia. BCE Inc.

Sylvia Chrominska, Group Head of Global Human Resources and Communications for The Bank of Nova Scotia, is on the Board of Directors of Emera Inc. Emera Incorporated

Rick Waugh, Chief Executive Officer for The Bank of Nova Scotia, is a member of the the Board of Directors of TransCanada Corporation. TransCanada Corporation

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Scotia Capital (USA) Inc. or its affiliates expects to receive or intends to seek compensation for investment banking services in the next 3 months. CANADIAN GEN INVTS LTD, Manulife Financial Corporation

Scotia Capital (USA) Inc. had an investment banking services client relationship during the past 12 months. Bank of Montreal, Bank of Nova Scotia, Bombardier Inc., CREDIT SUISSE GROUP, Husky Energy Inc., IAMGOLD Corporation, Toronto-Dominion Bank, VANGUARD NATURAL RESOURCES L

The issuer paid a portion of the travel-related expenses incurred by the Fundamental Research Analyst/Associate to visit material operations of the following issuer(s): Algonquin Power & Utilities Corp., Capstone Mining Corp., Husky Energy Inc., IAMGOLD Corporation, Nexen Inc.

Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of the following issuer(s): Algonquin Power & Utilities Corp., Atlantic Power Corporation, Bank of Montreal, BCE Inc., BPO PPTYS LTD, Brookfield Asset Management, Brookfield Asset Management, Brookfield Office Properties, Canadian Imperial Bank of Commerce, Canadian Utilities Limited, Dundee Corp., Emera Incorporated, Enbridge Inc., Fortis Inc., Great-West Lifeco Inc., Husky Energy Inc., IGM Financial Inc., Laurentian Bank of Canada, Manulife Financial Corporation, National Bank, Northland Power Inc., Power Corporation of Canada, Power Financial Corporation, Royal Bank of Canada, Sun Life Financial Inc., Thomson Reuters Corporation, Toronto-Dominion Bank, TransAlta Corporation, TransCanada Corporation

The Bank of Nova Scotia is the parent company and a related issuer of Scotia Capital Inc. and ultimate parent company and related issuer of Scotia Capital (USA) Inc. Bank of Nova Scotia

Scotia Capital Inc. is an affiliate of The Bank of Nova Scotia Trust Company (“Scotiitrust”). Under the estate arrangements of the late Kenneth R. Thomson, Scotiitrust is Trustee of the 2003 TIL Settlement (“TIL Settlement”), a trust of which members of the Thomson family are beneficiaries. The TIL Settlement holds holding company shares of The Woodbridge Company Limited (“Woodbridge”), who is the principal shareholder and controlling shareholder of Thomson Reuters Corporation. Under the estate arrangements, the directors and officers of Woodbridge are responsible for its business and operations. In certain limited circumstances, including a very substantial disposition of Thomson Reuters Corporation common shares by Woodbridge, Scotiitrust's approval may be required. Thomson Reuters Corporation

The Fundamental Research Analyst/Associate has visited material operations of the following issuer(s): Aimia, Algonquin Power & Utilities Corp., Artis REIT, BCE Inc., Bombardier Inc., Brookfield Office Properties, Canaccord Financial Inc., Capstone Mining Corp., Emera Incorporated, Enbridge Inc., Great-West Lifeco Inc., Husky Energy Inc., IAMGOLD Corporation, Industrial-Alliance Insurance and Financial Services Inc., Manulife Financial Corporation, Nexen Inc., Sun Life Financial Inc., Thomson Reuters Corporation, TransAlta Corporation

Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, the following issuer(s): Aimia, Algonquin Power & Utilities Corp., AltaGas Ltd., Artis REIT, Atlantic Power Corporation, Bank of Montreal, Bank of Nova Scotia, BCE Inc., Bombardier Inc., Brookfield Asset Management, Brookfield Office Properties, Canaccord Financial Inc., Canadian Utilities Limited, CREDIT SUISSE GROUP, Emera Incorporated, Enbridge Inc., Fairfax Financial Holdings Limited, First National Financial Corporation, Fortis Inc., Great-West Lifeco Inc., Husky Energy Inc., IAMGOLD Corporation, Industrial-Alliance Insurance and Financial Services Inc., Intact Financial Corporation, Laurentian Bank of Canada, Manulife Financial Corporation, National Bank, Nexen Inc., Power Corporation of Canada, Power Financial Corporation, Royal Bank of Canada, Sun Life Financial Inc., Toronto-Dominion Bank, TransAlta Corporation, Valener Inc., VANGUARD NATURAL RESOURCES L

This issuer owns 5% or more of the total issued share capital of The Bank of Nova Scotia, Bank of Montreal, Canadian Imperial Bank of Commerce, Royal Bank of Canada, Toronto-Dominion Bank

Scotia Capital Inc. participated in a bought deal with Intact Financial Corporation. The proceeds from the bought deal were related to a proposed acquisition by Intact Financial Corporation of JEVCO Insurance Company, which is related to The Westaim Corporation. Intact Financial Corporation

Comparative Canadian Bank Information				
Bank	Symbol	Scotia Capital Recommendation	Risk Rating	1 Yr Target
Bank of Montreal	BMO	Sector Underperform	Low	\$66.00
Bank of Nova Scotia	BNS	Sector Perform		
CIBC	CM	Restricted	Low	\$100.00
National Bank	NA	Sector Underperform	Low	\$88.00
Royal Bank	RY	Sector Outperform	Low	\$72.00
Toronto-Dominion Bank	TD	Sector Perform	Low	\$95.00

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