



CAPITAL MARKETS INC.



INVESTMENT MANAGEMENT LTD.

Connor, Clark & Lunn Conservative Income Fund II

\$175,000,000 (Maximum)

17,500,000 Units

\$10.00 per Unit

Connor, Clark & Lunn Conservative Income Fund II (the “Fund”), an investment trust established under the laws of the Province of Ontario, proposes to issue redeemable, transferable units (the “Units”) of the Fund (the “Offering”). The Fund has been formed to provide investors with tax-efficient exposure to a portfolio (the “Portfolio”) actively managed by Connor, Clark & Lunn Investment Management Ltd. (the “Investment Manager”) using the same investment approach as the Investment Manager applies to the Connor, Clark & Lunn Income Fund Composite (the “CC&L Income Fund Composite”) and the Connor, Clark & Lunn Conservative Income Fund (the “CC&L Conservative Income Fund”). The CC&L Income Fund Composite was established in February 2001 and the CC&L Conservative Income Fund completed its initial public offering in December 2004.

The Fund’s investment objectives are to:

- (i) provide holders of the Units (“Unitholders”) with a stable stream of tax-efficient monthly cash distributions targeted to be \$0.0542 per Unit (representing a yield of approximately 6.5% per annum on the issue price of \$10.00 per Unit); and
- (ii) preserve the net asset value per Unit in order to return at least the original issue price of Units (\$10.00 per Unit) to Unitholders on or about October 19, 2015 and provide to Unitholders an opportunity for capital appreciation above the original issue price.

Based on the expected asset allocation, the Portfolio is expected to yield approximately 7.5% per annum. After taking into account fees and expenses and including the effect of leverage, the net Portfolio yield is expected to be 5.66%. The difference between this amount and the 6.5% distribution objective is expected to reflect capital gains realized, and growth in the distributions paid, on Portfolio securities. See “The Portfolio – Security Selection”.

The Fund expects that the initial distribution will be payable to Unitholders of record on November 30, 2005 and, based on an anticipated closing date of October 18, 2005, is expected to be \$0.0773 per Unit. Distributions are expected to consist primarily of returns of capital and may include capital gains. See “Canadian Federal Income Tax Considerations”.

In order to achieve the Fund’s investment objectives, the Fund intends to obtain exposure to the performance of the Portfolio consisting of income producing securities including Canadian business income trusts, real estate investment trusts, utility income trusts, corporate bonds and convertible bonds. In addition, from time to time, the Portfolio may include significant cash and cash equivalents. The Portfolio will be held by a newly created investment trust, Conservative Income Fund II (“Conservative Income Fund II”) that will be formed under the laws of the Province of Ontario. As part of its strategy, the Investment Manager will employ leverage in the Portfolio to enhance returns when it considers market conditions appropriate. See “Conservative Income Fund II – Leverage Transactions”.

Connor, Clark & Lunn Capital Markets Inc. (the “Manager”) is responsible for the management and administration of the Fund and Conservative Income Fund II. The Investment Manager will provide investment advisory and portfolio management services to Conservative Income Fund II. The Manager and the Investment Manager are both part of the Connor, Clark & Lunn Financial Group, which has approximately \$29 billion of assets under management as at July 31, 2005. See “Management of the Fund”.

The return to Unitholders will be dependent upon the return of the Portfolio, which will be held by Conservative Income Fund II, by virtue of one or more forward purchase and sale agreements (collectively, the “Forward Agreement”) with Bank

of Montreal (the “Counterparty”). The Fund will invest the net proceeds of the Offering in a portfolio of common shares of Canadian public companies (the “Common Share Portfolio”). Under the Forward Agreement, the Fund will be entitled to sell securities in the Common Share Portfolio from time to time to fund monthly distributions, redemptions and repurchases of Units and its operating expenses. The Fund will terminate on October 19, 2015 (the “Termination Date”). Prior to the Termination Date, any non-cash assets of the Fund will be liquidated and the net assets of the Fund will be distributed to Unitholders unless Unitholders determine to continue the Fund by a majority of the votes cast at a meeting of Unitholders called for such purpose. See “Termination of the Fund”.

Price: \$10.00 per Unit
Minimum Purchase: 100 Units

	Price to the Public ⁽¹⁾	Agents’ Fees	Net Proceeds to the Fund ⁽²⁾
Per Unit	\$10.00	\$ 0.50	\$ 9.50
Total Minimum Offering ⁽³⁾⁽⁴⁾	\$ 50,000,000	\$2,500,000	\$47,500,000
Total Maximum Offering ⁽⁴⁾	\$ 175,000,000	\$8,750,000	\$166,250,000

Notes:

- (1) The offering price was established by negotiation between the Fund and the Agents.
- (2) Before deducting the expenses of issue (estimated at \$675,000 in the case of the maximum Offering and \$565,000 in the case of the minimum Offering), subject to a maximum of 1.5% of the gross proceeds of the Offering, which, together with the Agents’ fees, will be paid out of the proceeds of the Offering.
- (3) There will be no closing unless a minimum of 5,000,000 Units are sold. If subscriptions for a minimum of 5,000,000 Units have not been received within 90 days following the date of issuance of a receipt for this prospectus, the offering of Units may not continue without the consent of the Canadian securities regulators and those who have subscribed for Units on or before such date.
- (4) The Fund has granted the Agents an option (the “Over-Allotment Option”), exercisable until 30 days after the closing of the Offering, to offer up to 15% of the aggregate number of Units issued at the closing of the Offering on the same terms set forth above. This prospectus qualifies the distribution of the Over-Allotment Option, and the Units issuable on the exercise thereof. If the Over-Allotment Option is exercised in full, the total price to the public under the maximum Offering will be \$201,250,000, the Agents’ fees will be \$10,062,500 and the net proceeds to the Fund will be \$191,187,500.

See “Risk Factors” for a discussion of certain factors that should be considered by prospective investors in Units. There is no assurance that the Fund will be able to achieve its investment objectives.

Commencing in 2006, Units may be redeemed on the last business day of November, subject to the Fund’s right to suspend redemptions in certain circumstances, for a redemption price equal to the net asset value per Unit of the Fund (the “NAV per Unit”) on that date less any costs of funding the redemption. See “Redemption of Units”. The NAV per Unit will vary depending on a number of factors, including the distributions paid on the Units, the value of the securities in the Portfolio, which will be affected by market conditions, and the distributions paid thereon. **There is currently no market through which the Units may be sold and purchasers may not be able to resell securities purchased under this prospectus.** The Agents may over-allot or effect transactions as described under “Plan of Distribution”.

The Toronto Stock Exchange has conditionally approved the listing of the Units, subject to the fulfillment of the requirements of such exchange on or before December 20, 2005, including the distribution to a minimum number of Unitholders.

In the opinion of McMillan Binch Mendelsohn LLP, counsel to the Fund, and Stikeman Elliott LLP, counsel to the Agents, provided that the Fund qualifies as a “mutual fund trust” for the purposes of the *Income Tax Act* (Canada) (the “Tax Act”), Units offered hereby will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans. See “Canadian Federal Income Tax Considerations” and “Eligibility for Investment”.

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

Scotia Capital Inc., CIBC World Markets Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., TD Securities Inc., National Bank Financial Inc., HSBC Securities (Canada) Inc., Richardson Partners Financial Limited, Wellington West

Capital Inc., Desjardins Securities Inc., Raymond James Ltd., Canaccord Capital Corporation and Blackmont Capital Inc. (collectively, the “Agents”) conditionally offer the Units on a best efforts basis, subject to prior sale, if, as and when issued by the Fund and accepted by the Agents in accordance with the conditions contained in the agency agreement dated as of September 29, 2005 between the Agents, the Manager and the Fund (the “Agency Agreement”), and subject to the approval of certain legal matters on behalf of the Fund and the Manager by McMillan Binch Mendelsohn LLP and on behalf of the Agents by Stikeman Elliott LLP. See “Plan of Distribution”.

BMO Nesbitt Burns Inc. is an Agent of the Offering. BMO Nesbitt Burns Inc. is an indirect wholly-owned subsidiary of Bank of Montreal. It is anticipated that Bank of Montreal and/or one or more of its affiliates (including BMO Nesbitt Burns Inc.) will enter into financial services transactions with the Fund or Conservative Income Fund II, including the Forward Agreement, the Loan Facility described under “Conservative Income Fund II – Leverage Transactions” and currency or other derivative transactions. **Consequently, the Fund may be considered a “connected issuer” of BMO Nesbitt Burns Inc. under applicable securities legislation.** See “Plan of Distribution”.

Subscriptions for Units will be received subject to acceptance or rejection in whole or in part, and the right is reserved to close the subscription books at any time without notice. Closing of the Offering is expected to occur on or about October 18, 2005, but no later than November 30, 2005. Registrations and transfers of Units will be effected only through the book-entry only system administered by The Canadian Depository for Securities Limited (“CDS”). A purchaser of Units will receive only a customer confirmation from the registered dealer which is a CDS participant and through whom Units are purchased and will not have the right to receive physical certificates evidencing this ownership. See “Plan of Distribution” and “Description of Units – Book-Entry Only System”.

Conservative Income Fund II has agreed to obtain a receipt for a non-offering prospectus of Conservative Income Fund II from the Autorité des marchés financiers and the Manager has agreed to deliver a copy of such prospectus to purchasers in the Province of Québec prior to the purchase of Units by any person in the Province of Québec.

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PROSPECTUS SUMMARY

The following is a summary of the principal features of the Offering and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. Unless otherwise indicated, all references to dollar amounts in this prospectus are to Canadian dollars.

Issuer:	Connor, Clark & Lunn Conservative Income Fund II (the “Fund”) is an investment trust established under the laws of the Province of Ontario on September 29, 2005 which invests its assets in accordance with the investment objectives and strategy described under “The Fund’s Investment Guidelines”. The manager of the Fund is Connor, Clark & Lunn Capital Markets Inc.
Offering:	The offering (the “Offering”) consists of redeemable, transferable units (“Units”) of the Fund.
Maximum Issue:	\$175,000,000 (17,500,000 Units)
Minimum Issue:	\$50,000,000 (5,000,000 Units)
Price:	\$10.00 per Unit
Minimum Subscription:	100 Units (\$1,000)
Manager:	Connor, Clark & Lunn Capital Markets Inc. (the “Manager”) is responsible for the management and administration of the Fund and Conservative Income Fund II (defined below). The Manager has over \$1.2 billion in assets under management and is part of the Connor, Clark & Lunn Financial Group, a group of affiliated companies with aggregate assets under management of approximately \$29 billion as at July 31, 2005. See “Management of the Fund – The Manager”.
Investment Objectives and Strategy:	<p>The Fund will provide holders of units (“Unitholders”) with exposure to the performance of a portfolio (the “Portfolio”) actively managed by Connor, Clark & Lunn Investment Management Ltd. (the “Investment Manager”). The Portfolio will consist of income producing securities including Canadian business income trusts, real estate investment trusts (“REITs”), utility income trusts, corporate bonds and convertible bonds. In addition, from time to time, the Portfolio may include significant cash and cash equivalents. See “The Portfolio”. The Portfolio will be managed using the same investment approach as the Investment Manager applies to the Connor, Clark & Lunn Income Fund Composite (the “CC&L Income Fund Composite”), which consists of a single fund, the Private Client Income Fund, and Connor, Clark & Lunn Conservative Income Fund (“CC&L Conservative Income Fund”). The CC&L Income Fund Composite was established in February 2001 and CC&L Conservative Income Fund completed its initial public offering in December 2004. See “The Portfolio – CC&L Income Fund Composite”. One of the principal goals of the Investment Manager’s investment approach is to create a portfolio that outperforms in down markets while providing solid performance in up markets.</p> <p>As part of its strategy, the Investment Manager will employ leverage in the Portfolio to enhance returns when it considers market conditions appropriate. The Investment Manager intends to reduce or eliminate leverage and may increase the allocation to cash when the Investment Manager believes the outlook for market performance is unfavourable. See “Conservative Income Fund II – Leverage Transactions”.</p>

The Fund's investment objectives are to:

- (i) provide Unitholders with a stable stream of tax-efficient monthly cash distributions targeted to be \$0.0542 per Unit (representing a yield of approximately 6.5% per annum on the issue price of \$10.00 per Unit); and
- (ii) preserve the net asset value per Unit in order to return at least the original issue price of Units (\$10.00 per Unit) to Unitholders on or about October 19, 2015 and provide to Unitholders an opportunity for capital appreciation above the original issue price.

In order to achieve its investment objectives, the Fund intends to obtain exposure to the performance of the Portfolio held by a newly created investment trust, Conservative Income Fund II ("Conservative Income Fund II"), by entering into one or more forward purchase and sale agreements (collectively, the "Forward Agreement") with Bank of Montreal (the "Counterparty"). The Fund will invest the net proceeds of the Offering in a portfolio of common shares of Canadian public companies (the "Common Share Portfolio"). Under the Forward Agreement, the Fund will be entitled to sell securities in the Common Share Portfolio from time to time to fund monthly distributions, redemptions and repurchases of Units and its operating expenses. See "Conservative Income Fund II" and "The Fund's Investment Guidelines – Forward Agreement".

See "The Fund's Investment Guidelines – Investment Objectives".

Investment Manager:

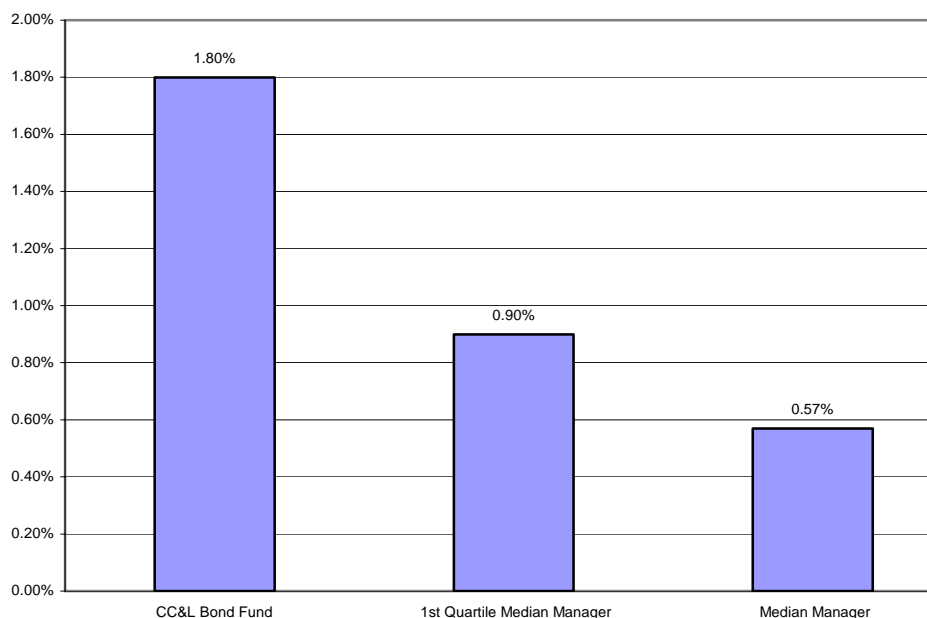
The Investment Manager will provide investment advisory and portfolio management services to Conservative Income Fund II. The Investment Manager, also part of the Connor, Clark & Lunn Financial Group, was established in March 1982 and has offices in Vancouver and Toronto. The Investment Manager managed assets worth approximately \$16 billion as at July 31, 2005.

The Investment Manager's 12 person fixed income team manages approximately \$5.5 billion of these assets and, in addition, manages the CC&L Income Fund Composite and the investment portfolio of the CC&L Conservative Income Fund. The Manager believes that the fixed income team brings a unique credit-oriented approach to investing in income trust securities. This approach, combined with the inclusion of fixed income securities, has historically resulted in a portfolio that has outperformed the Scotia Capital Income Trust Index in down markets while providing solid performance in up markets. The team works in conjunction with the Investment Manager's equity team and is supported by an analytic staff of 23 people.

The fixed income team has a proven track record of outperformance. The CC&L Bond Fund has had an average annual value added of 0.29% above the Scotia Capital Universe Bond Index over the last five years, which ranks it among the first quartile of Canadian bond managers over that period, and has performed above such index in 87.5% of the rolling 12-month periods over this time. A full presentation in respect of the CC&L Bond Fund is available upon request. This strong investment performance has resulted in over \$1 billion of new mandates during the past year.

The Investment Manager has performed particularly well both in absolute terms and relative to other fixed income managers during down markets. The following chart reflects the performance of the CC&L Bond Fund during all months with negative returns over the past five years relative to the performance of the median first quartile Canadian bond fund manager and the median Canadian bond fund manager over the same periods:

Five Year Added Value during Months with Negative Index Returns ending June 2005



Notes:

1. Bars reflect the sum of the monthly returns for all months in which the Scotia Capital Universe Bond Index experienced negative returns during the past five years, less the sum of the monthly returns of that index during the same period.
2. Median information supplied by Morningstar (Institutional Pooled). First quartile median calculated by Connor, Clark & Lunn Financial Group includes only managers of similar bond universe mandates. Quartile break points and median include all managers.
3. Returns and comparative returns are presented before deducting fees.

The Portfolio:

The Fund intends to obtain exposure to the performance of the Portfolio consisting of income producing securities including Canadian business income trusts, REITs, utility income trusts, corporate bonds and convertible bonds. In addition, from time to time, the Portfolio may include significant cash and cash equivalents.

The Fund has been formed to provide investors with tax-efficient exposure to the Portfolio, which is managed using the same investment approach as the Investment Manager applies to the CC&L Income Fund Composite, which consists of a single fund, and the CC&L Conservative Income Fund. The CC&L Income Fund Composite was established in February 2001 and the CC&L Conservative Income Fund completed its initial public offering in December 2004. Since the CC&L Income Fund Composite has a longer track record than the CC&L Conservative Income Fund, the performance information presented below focuses on the performance of the CC&L Income Fund Composite.

CC&L Income Fund Composite

The CC&L Income Fund Composite was established in February 2001 with an investment approach similar to that of the Portfolio. Over the period from inception of the fund to June 30, 2005, the net asset value per unit of the CC&L Income Fund Composite increased from \$10.00 to \$16.92 and quarterly distributions totaled \$4.55 per unit. The average annual distribution has been approximately 10.0% measured against initial unit value. Total assets of the CC&L Income Fund Composite were approximately \$118 million on June 30, 2005. A full presentation in respect of the CC&L Income Fund Composite is available upon request. Annualized total returns of the CC&L Income Fund Composite are illustrated in the table below:

Average Annual Total Returns as of June 30, 2005

	<u>One Year</u>	<u>Two Year</u>	<u>Three Year</u>	<u>Four Year</u>	<u>Since Inception (February 2001)</u>
CC&L Income Fund Composite	24.39%	22.76%	19.87	20.13	19.78%

Notes:

1. Returns have been reduced to reflect estimated annual fees and expenses of the CC&L Conservative Income Fund of 1.63% and are based on monthly data. The estimated annual expenses of the Fund are higher than those of the CC&L Income Fund Composite and the CC&L Conservative Income Fund as a result of the Fund's tax-efficient structure. See "Fees and Expenses".
2. While the Portfolio will be managed on substantially the same basis as the CC&L Income Fund Composite, there are differences in the investment objectives and strategy, including the use of leverage, that will result in different performance.
3. The performance data quoted above represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted.

The CC&L Income Fund Composite's asset mix since inception is summarized in the table below:

	<u>Income Trusts</u>	<u>High Yield Bonds</u>	<u>Convertible Bonds</u>	<u>Investment Grade Bonds & Cash</u>
<i>Current</i>	71.00%	3.30%	3.40%	22.30%
<i>Maximum</i>	78.22%	4.50%	6.56%	40.80%
<i>Minimum</i>	56.29%	0.00%	0.00%	15.14%

Units of the CC&L Conservative Income Fund were issued at \$10.00 per unit on December 15, 2004. At July 29, 2005, the closing price of the units on the Toronto Stock Exchange (the "TSX") was \$9.87 and distributions had totalled \$0.3798 per unit since inception. The Manager believes that the success of the CC&L Conservative Income Fund's investment strategy is best illustrated by the total return earned on the fund's portfolio. The CC&L Conservative Income Fund's initial net asset value was \$9.43 and net asset value on July 29, 2005 was \$10.52. Including distributions, the total return earned on the portfolio of CC&L Conservative Income Fund from inception to July 29, 2005 was 16.48%, net of fees and expenses. The estimated annual expenses of the Fund are higher than those of the CC&L Income Fund Composite and the CC&L Conservative Income Fund as a result of the Fund's tax-efficient structure.

The CC&L Conservative Income Fund's current asset mix is summarized in the table below:

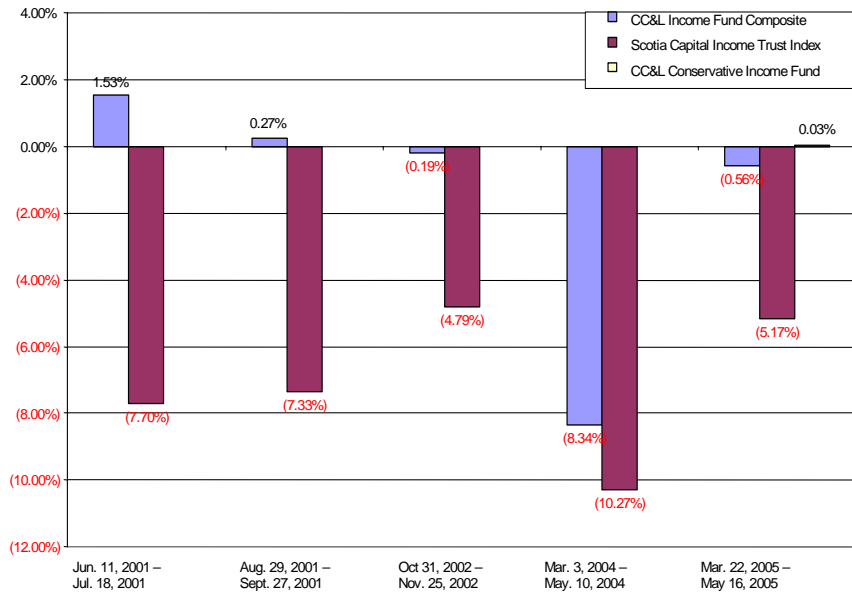
	<u>Income Trusts</u>	<u>High Yield Bonds</u>	<u>Convertible Bonds</u>	<u>Investment Grade Bonds & Cash</u>
<i>Current</i>	79.7%	5.1%	0.7%	14.4%

Since inception, the amount of leverage employed by the CC&L Conservative Income Fund has ranged from 0% to 2% of total assets. As of the date of this prospectus, no leverage is employed.

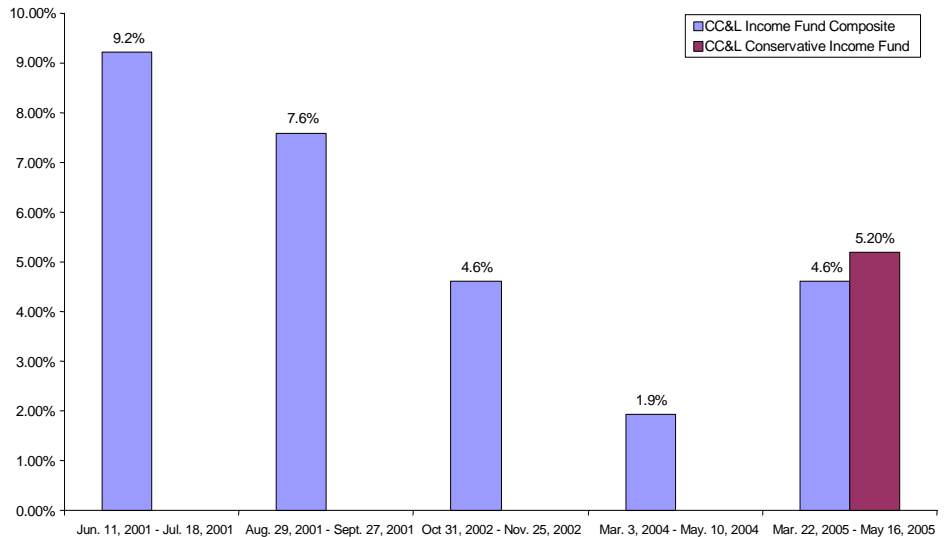
As with the CC&L Income Fund Composite, the Investment Manager will employ a disciplined, conservative process with respect to the Portfolio aimed at generating stable cash flows and preserving capital. A wide range of income generating assets will be evaluated using a bottom-up, company level analysis which emphasizes credit-oriented factors. This analysis will drive both security selection and asset allocation. The Portfolio's sensitivity to quantitative, macro-economic factors such as interest rates and economic growth will be continuously monitored. When the Investment Manager considers it appropriate, adjustments will be made to the asset mix of the Portfolio and/or interest rate hedging strategies will be used.

One of the principal goals of this investment approach is to create a portfolio that outperforms in down markets while providing solid performance in up markets. The historical performance of the CC&L Income Fund Composite demonstrates the success of this strategy. Up market performance is demonstrated by the performance of the CC&L Income Fund Composite, which has returns that would have made it a top quartile performer in the Canadian income trust category, using Morningstar's measurement criteria, over the three year period ending June 30, 2005 and since the fund's inception. Down market outperformance can be seen in the performance of the CC&L Income Fund Composite relative to the Scotia Capital Income Trust Index during the five worst periods of negative performance since the inception of the CC&L Income Fund Composite. During those five periods, the sum of the returns of the CC&L Income Fund Composite was -7.30%, compared to -35.25% for the index. Comparative returns for each of the five periods with negative returns as well as the relative outperformance are illustrated in the following charts:

Outperformance of CC&L Income Fund Composite in Periods of Negative Performance¹



Relative Outperformance in Down Markets



Notes:

1. The periods illustrated represent the five largest peak to trough declines in the Scotia Capital Income Trust Index since the inception of the CC&L Income Fund Composite (February 2001).
2. Returns of the CC&L Income Fund Composite have been reduced to reflect estimated annual fees and expenses of the CC&L Conservative Income Fund of 1.63% and are based on monthly data. The estimated annual expenses of the Fund are higher than those of the CC&L Income Fund Composite and the CC&L Conservative Income Fund as a result of the Fund's tax-efficient structure.
3. Information on the Scotia Capital Income Trust Index is supplied by Scotia Capital Inc.
4. The performance data quoted above represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted.

Security Selection

The evaluation of both bonds and income trusts is conducted by the fixed-income team, which relies on a credit-oriented framework to identify those securities that the Investment Manager considers as likely to produce the desired portfolio characteristics. Corporate bond selection is based on a structured checklist approach, incorporating over 50 financial, operating, competitive and market considerations and including statistics generated by proprietary models. This structured selection process ensures that all issuers are evaluated on a consistent basis. The Investment Manager evaluates income trusts in accordance with criteria adapted from its credit-oriented fixed-income checklist adjusted to reflect the particular requirements of investing in businesses that are managed to maximize cash distributions. The Investment Manager's conservative bias leads to an emphasis on business income trusts, REITs and utility income trusts. The strategy generally favours trusts that have a strong competitive position and stable revenues and avoids trusts where access to capital is important to replace depleting assets and where reinvestment levels are considered inadequate.

Interest Rate Management

The Investment Manager devotes considerable resources towards managing the interest rate exposure inherent in all of its income-oriented investments. This is accomplished by portfolio design and construction as well as through the periodic use of derivative instruments such as interest rate futures and options to hedge this exposure. Where appropriate and consistent with the investment restrictions of Conservative Income Fund II, the Investment Manager intends to employ these and other techniques in the management of the Portfolio. The hedging strategy is designed to protect against significant interest rate increases that may occur over an investment horizon. Such strategy is not intended to enhance the returns of the Portfolio but only to minimize the impact of increases in interest rates. A portfolio constructed for a rising rate environment is one that is biased towards instruments whose prices are expected to fall less when rates rise, such as bonds with a short time to maturity or the income trust units of businesses with pricing power. Examples of hedging strategies used by the Investment Manager include short selling bonds or interest rate futures or buying options to pay a fixed interest rate by way of a swap agreement. The Investment Manager believes that the hedging strategies it employs will assist Conservative Income Fund II to achieve its investment objectives.

Distributions:

An objective of the Fund is to provide Unitholders with a stable stream of tax-efficient monthly distributions targeted to be \$0.0542 per Unit (representing a yield of approximately 6.5% per annum on the original issue price of \$10.00 per Unit) to Unitholders of record on or about the last business day of each month (the "Record Date").

Based on the expected asset allocation, the Portfolio is expected to yield approximately 7.5% per annum. After taking into account fees and expenses and including the effect of leverage, the net Portfolio yield is expected to be 5.66%. The difference between this amount and the 6.5% distribution objective is expected to reflect capital gains realized, and growth in the distributions paid, on Portfolio securities. See "The Portfolio – Security Selection".

The Fund expects that the initial distribution will be payable to Unitholders of record on November 30, 2005 and, based on an anticipated closing date of October 18, 2005, is expected to be \$0.0773 per Unit. The Fund intends to pay distributions to Unitholders not more than 15 days after the Record Date.

Distributions are expected to consist primarily of returns of capital and may include capital gains. See “Canadian Federal Income Tax Considerations”.

If in any year, after such distributions, there would otherwise remain in the Fund additional net income or net realized capital gains, the Fund intends to make, on or before December 31 of that year, a special distribution of such portion of the remaining net income and net realized capital gains as is necessary to ensure that the Fund will not be liable for income tax thereon under the *Income Tax Act* (Canada) (the “Tax Act”).

See “Distributions” and “Description of Units – Units”.

Market Purchases:

To enhance liquidity and to provide market support for the Units, the Fund will have a mandatory market purchase program under which the Fund will, subject to certain exceptions contained in the Trust Agreement (as described under “Description of Units – Units”) and in compliance with any applicable regulatory requirements, be obligated to purchase Units for cancellation on and subject to the terms below. If, on any business day following the closing of the Offering, the weighted average price of the Units is less than 95% of the net asset value per Unit (the “NAV per Unit”) determined as at the most recently published Valuation Date (as defined herein under “Valuation”), the Fund will offer to purchase for cancellation any Units offered in the market at or below 95% of the NAV per Unit on the following business day. The maximum number of Units to be purchased in any three month period (commencing with the three month period that begins on the first day of the month following the closing date of the Offering) will be 1.25% of the number of Units outstanding at the beginning of such period.

In addition, the Fund has the right (but not the obligation), exercisable in its sole discretion, at any time, to purchase for cancellation Units in the market at prices not exceeding the NAV per Unit, subject to any applicable regulatory requirements and limitations. See “Description of Units – Units”.

Leverage Transactions:

As part of its strategy, the Investment Manager will employ leverage in the Portfolio to enhance returns when it considers market conditions appropriate. The Investment Manager intends to reduce or eliminate leverage and may increase the allocation to cash when the Investment Manager believes the outlook for market performance is unfavourable. See “Conservative Income Fund II – Leverage Transactions”.

Subsequent to the closing of the Offering, Conservative Income Fund II intends to enter into a loan facility with a Canadian chartered bank (the “Lender”), which may be affiliated with one of the Agents. The aggregate amount of borrowings and any other leverage may not exceed 15% of the total assets of Conservative Income Fund II. Such leverage may be used to purchase additional securities for the Portfolio. It is expected that the terms, conditions, interest rates, fees and expenses, as applicable, of and under the leverage transactions would be typical for transactions of this nature and that the Lender or counterparty (which may be a Canadian chartered bank or an affiliate of a Canadian chartered bank, either or both of which may be affiliated with one of the Agents) will require Conservative Income Fund II to provide a security interest in some or all of its assets in favour of the Lender or counterparty to secure such obligations. If leverage of 15% of the total assets is employed, the Portfolio will have a debt-to-equity ratio of 0.176:1 representing a total asset-to-equity ratio of 1.176:1. See “Conservative Income Fund II – Leverage Transactions”.

Net Asset Value:	The net asset value of the Fund (the “NAV”) on any date is equal to the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities of the Fund on that date. The NAV per Unit is determined by dividing the NAV of the Fund by the number of Units then outstanding. See “Valuation – Net Asset Value and NAV per Unit”.
Redemption:	<p>Units will be redeemed by the Fund on October 19, 2015. The redemption price on that date will be equal to the NAV per Unit.</p> <p>Units may be surrendered at any time for redemption by the Fund and will be redeemed on a monthly basis on the last business day of a month (a “Redemption Date”), subject to the Fund’s right to suspend redemptions in certain circumstances. For redemptions occurring on the November Redemption Date, commencing in 2006, in each year, the redemption price will be equal to the NAV per Unit determined as of the relevant Redemption Date, minus any costs of funding the redemption including all brokerage fees, commissions and other costs incurred in liquidating the securities held in the Portfolio. For redemptions occurring on a Redemption Date other than November of each year, the redemption price per Unit will be calculated by reference to market price. Units surrendered for redemption by a Unitholder no later than the 10th day of a month will be redeemed on the Redemption Date of such month and such Unitholder will receive payment on or before the 15th business day following such Redemption Date. See “Redemption of Units”.</p>
Trustee:	The Royal Trust Company is the trustee of the Fund and Conservative Income Fund II, acts as custodian of the assets of the Fund and Conservative Income Fund II and is responsible for certain aspects of the day-to-day administration of the Fund. See “The Trustee” and “Auditors, Transfer Agent, Registrar and Custodian”.
Termination:	The Fund will terminate on October 19, 2015, (the “Termination Date”). Prior to the Termination Date, any non-cash assets of the Fund will be liquidated and the net assets of the Fund will be distributed to Unitholders unless Unitholders determine to continue the Fund by a majority of the votes cast at a meeting of Unitholders called for such purpose. The Manager, may, in its discretion, terminate the Fund without the approval of Unitholders if, in the opinion of the Manager after consulting with the Fund’s advisory board, the Net Asset Value of the Fund has been reduced as the result of redemptions or otherwise such that it is no longer economically feasible to continue the Fund and it would be in the best interests of the Unitholders to terminate the Fund. After paying outstanding liabilities, the Fund will distribute its remaining assets <i>pro rata</i> to Unitholders. See “Termination of the Fund”.
Eligibility for Investment:	In the opinion of McMillan Binch Mendelsohn LLP, counsel to the Fund, and Stikeman Elliott LLP, counsel to the Agents, provided that the Fund qualifies as a “mutual fund trust” for purposes of the Tax Act, Units offered hereby will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans. See “Canadian Federal Income Tax Considerations” and “Eligibility for Investment”.
Canadian Federal Income Tax Considerations:	A Unitholder will generally be required to include in computing income for a taxation year the amount of the Fund’s net income for the taxation year, including net realized taxable capital gains, paid or payable to the Unitholder in the taxation year. Distributions of the Fund’s capital gains will generally be treated as capital gains realized by Unitholders. A Unitholder who disposes of Units held as capital property (on redemption or otherwise) will realize a capital gain (or capital loss) to the extent that the proceeds of disposition exceed (or are less than) the adjusted cost base of the Units and any reasonable costs of disposition. Distributions by the Fund to a Unitholder in excess of the Unitholder’s share of the Fund’s net income and net realized capital gains will not result in an inclusion in income but will reduce the adjusted cost base of the Unitholder’s Units. To the extent that the adjusted cost base of a Unit held as capital property would otherwise be less than zero, the Unitholder will be deemed to have realized a capital gain equal to that negative amount.

Each investor should satisfy himself or herself as to the federal and provincial tax consequences of an investment in Units by obtaining advice from his or her tax advisor. See “Canadian Federal Income Tax Considerations”.

Risk Factors:

An investment in the Units will be subject to certain risk factors, including:

- (i) there can be no assurance that the Fund will be able to achieve its investment objectives;
- (ii) the value of the Portfolio and the NAV per Unit will vary according to, among other things, the net asset value of the securities in the Portfolio and the distributions paid thereon;
- (iii) the financial performance of the Portfolio and market and economic conditions affecting the equity markets;
- (iv) the fact that income trusts depend on the financial performance of the related operating company and may also be subject to general risks associated with various economic factors, and that investments in REITs are subject to general risks associated with real property investments;
- (v) the use of leverage to enhance yield;
- (vi) reliance on the Manager and the Investment Manager, and there is no certainty that the individuals who are principally responsible for providing investment advisory and portfolio management services will continue to be employed by the Investment Manager while it provides investment advisory and portfolio management services to Conservative Income Fund II in respect of the Portfolio;
- (vii) sensitivity to interest rates;
- (viii) risks relating to the use of derivative instruments;
- (ix) counterparty risks associated with the Forward Agreement;
- (x) counterparty risks associated with securities lending;
- (xi) the Units may trade in the market at a premium or a discount to the NAV per Unit and there can be no guarantee that Units will trade at prices that reflect their net asset value;
- (xii) status of the Fund for securities law purposes;
- (xiii) potential conflicts of interest;
- (xiv) if, contrary to the advice of counsel to the Fund and to the Agents or as a result of a change of law, upon physical settlement of the Forward Agreement the character and timing of any gain under the Forward Agreement were other than a capital gain on the sale of common shares thereunder, after-tax returns to Unitholders would be reduced;
- (xv) possible changes in Canadian income tax laws;
- (xvi) tax proposals respecting the deductibility of expenses;
- (xvii) Unitholders will not have statutory rights normally associated with ownership of shares of a corporation; and
- (xviii) the Fund’s lack of operating history and the current absence of a public trading market for the Units.

See “Risk Factors”.

SUMMARY OF FEES AND EXPENSES

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

<u>Type of Charge</u>	<u>Description</u>
Fees payable to the Agents for selling Units:	\$0.50 per Unit.
Expenses of issue:	The Fund and Conservative Income Fund II will, subject to a combined maximum of 1.5% of the gross proceeds of the Offering, pay the expenses incurred in connection with the offering of Units by the Fund and the establishment of Conservative Income Fund II, estimated to be \$675,000 in the case of the maximum Offering and \$565,000 in the case of the minimum Offering.
Management and Investment Management Fees:	<p>The Fund shall pay the Manager an annual fee of 0.75% of the NAV accrued daily and payable monthly in arrears, together with the Service Fee (described below) to be paid by the Manager to dealers, plus applicable taxes.</p> <p>Conservative Income Fund II shall pay the Manager an annual management fee in an amount equal to 0.35% per annum of the net asset value of Conservative Income Fund II, accrued daily and payable monthly in arrears, plus applicable taxes.</p> <p>The Manager, in its capacity as Manager of Conservative Income Fund II, is responsible for the payment of the investment management fees of the Investment Manager.</p>
Operating expenses:	<p>The Fund will pay to the Counterparty a fee under the Forward Agreement of approximately 0.50% per annum of the net asset value of Conservative Income Fund II.</p> <p>Each of the Fund and Conservative Income Fund II will pay for all ordinary expenses incurred in connection with their operation and administration, estimated to be \$95,000 per annum for the Fund and \$65,000 per annum for Conservative Income Fund II. The Fund and Conservative Income Fund II will also be responsible for any extraordinary expenses which they may incur from time to time. See “Fees and Expenses”.</p>
Service Fee:	A service fee (the “Service Fee”) will be payable to each dealer whose clients hold Units. The Service Fee will accrue daily and be paid at the end of each calendar quarter and will be equal to 0.40% annually of the NAV of the Units held by clients of the dealer. The Service Fee payable to registered dealers in respect of the quarter ending December 31, 2005, shall be paid on a <i>pro rata</i> basis.

THE FUND

Connor, Clark & Lunn Conservative Income Fund II (the “Fund”) is an investment trust established under the laws of the Province of Ontario pursuant to a trust agreement dated as of September 29, 2005 (the “Trust Agreement”) between Connor, Clark & Lunn Capital Markets Inc. (the “Manager”) in its capacity as manager and The Royal Trust Company (the “Trustee”) as trustee. The Manager was incorporated under the *Business Corporations Act* (Ontario) on January 15, 2001 and is wholly-owned by CC&L Capital Markets Partnership.

The principal place of business of the Fund and the registered office of the Manager is Suite 5700, Box 416, 1 First Canadian Place, 100 King Street West, Toronto, Ontario M5X 1E3.

Status of the Fund

The Fund is not a “mutual fund” for securities law purposes. As a result, some of the protections provided to investors in mutual funds under such laws will not be available to investors in the Units.

THE FUND’S INVESTMENT GUIDELINES

The following sections, “Investment Objectives”, “Investment Strategy”, “Investment Restrictions”, and “Securities Lending” are referred to collectively in this prospectus as the Fund’s “Investment Guidelines”.

Investment Objectives

The Fund’s investment objectives are to:

- (i) provide holders of the Units (“Unitholders”) with a stable stream of tax-efficient monthly cash distributions targeted to be \$0.0542 per Unit (representing a yield of approximately 6.5% per annum on the issue price of \$10.00 per Unit); and
- (ii) preserve the net asset value per Unit in order to return at least the original issue price of Units (\$10.00 per Unit) to Unitholders on or about October 19, 2015 (the “Termination Date”) and provide to Unitholders an opportunity for capital appreciation above the original issue price.

Investment Strategy

In order to achieve the Fund’s investment objectives, the Fund intends to obtain exposure to the performance of the Portfolio (defined below under “The Portfolio”) held by Conservative Income Fund II (“Conservative Income Fund II”) by virtue of one or more forward purchase and sale agreements (collectively, the “Forward Agreement”) with Bank of Montreal (the “Counterparty”). The Fund will not invest in Conservative Income Fund II. The Fund will invest the net proceeds of the Offering in a portfolio of common shares of Canadian public companies (the “Common Share Portfolio”). Under the Forward Agreement, the Fund will be entitled to sell securities in the Common Share Portfolio from time to time to fund monthly distributions, redemptions and repurchases of Units and its operating expenses as described in more detail under “Forward Agreement” below. As a result, Unitholders’ returns will correlate with the net returns realized by Conservative Income Fund II on its investment in the Portfolio. The long-term debt of the Counterparty or any guarantor will be rated at least “A” by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (“S&P”), or have an equivalent rating from Dominion Bond Rating Service Limited or another “approved credit rating organization” as defined in National Instrument 81-102 *Mutual Funds* (“NI 81-102”).

Investment Restrictions

The Fund will use the net proceeds of the Offering (including any net proceeds from the exercise of the Over-Allotment Option (defined under “Plan of Distribution”)) to acquire the Common Share Portfolio. In purchasing and holding the Common Share Portfolio, the Fund will be subject to, among other things, the following investment restrictions:

- (i) **Investment in Canadian Equities.** The Fund will restrict its investments to common shares of Canadian public companies that are “Canadian securities” for the purposes of the *Income Tax Act* (Canada) (the “Tax Act”);

- (ii) **Purchasing Securities.** The Fund will not purchase securities other than through normal market facilities unless the purchase price therefor approximates the prevailing market price or is negotiated or established on an arm's length basis;
- (iii) **Status under the Tax Act.** The Fund will restrict its investments to the extent necessary to qualify as a mutual fund trust and a unit trust for purposes of the Tax Act;
- (iv) **Concentration.** The Fund will restrict its investments in any one issuer to no more than 10% of its total assets at the time of investment in such issuer; and
- (v) **Taxable Canadian Property.** The Fund will not acquire or hold any property that is "taxable Canadian property" within the meaning of the Tax Act or that will otherwise constitute "specified property" within the meaning of the proposed amendments to the Tax Act announced on September 16, 2004.

The Fund may also hold cash, and may invest excess cash in cash equivalents.

Forward Agreement

Within 30 days of the closing of the Offering, the Fund will enter into the Forward Agreement. Under the Forward Agreement, the Fund will be entitled to sell securities in the Common Share Portfolio from time to time to fund monthly distributions, redemptions and repurchases of Units and its operating expenses.

Under the terms of the Forward Agreement, the Fund and the Counterparty have agreed that their settlement obligations under the Forward Agreement with respect to the Common Share Portfolio securities will be discharged by physical delivery of the Common Share Portfolio securities by the Fund to the Counterparty against cash payment or, at the election of the Fund, by the making of cash payments between the parties. The amount payable by the Counterparty for physical delivery of the Common Share Portfolio may be more or less than the original aggregate subscription price of the Units. Unless the Fund elects cash settlement of the Forward Agreement, the Counterparty will pay to the Fund on or about the Termination Date, as the purchase price for the Common Share Portfolio, an amount equal to the Canadian dollar equivalent of the redemption proceeds of a corresponding number of units of Conservative Income Fund II. Prior to the Termination Date, Common Share Portfolio securities or other acceptable securities will be pledged to, and may be held by, the Counterparty as security for the obligations of the Fund under the Forward Agreement.

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

Under the Forward Agreement, the forward purchase price may be reduced for all dividends and distributions, including extraordinary distributions, declared and paid on the Common Share Portfolio securities paid to the Fund as owner of the Common Share Portfolio. If any dividends or distributions are to be received by the Fund, the Forward Agreement will provide that replacement securities acceptable to the Counterparty may, at the Fund's option, be substituted for shares in respect of which the dividend or distribution has been declared to preserve the value of the Forward Agreement. Alternatively, the Fund may consider contributing additional securities to the Common Share Portfolio or entering into additional forward, derivative or other transactions. The Forward Agreement will have similar provisions designed to avoid adjustments of the amount to be paid on or about the Termination Date which might otherwise be required if the Fund receives consideration as a consequence of a merger transaction involving any of the securities in the Common Share Portfolio.

The Forward Agreement may be terminated prior to the Termination Date in certain circumstances including: (i) at the option of the Fund in its sole discretion; or (ii) by the Counterparty if an event occurs that the Counterparty determines has had or would reasonably be expected to have an adverse effect on the Counterparty's ability to perform its obligations under the Forward Agreement or hedge its position under the Forward Agreement. The Fund intends to exercise its right to partially settle the Forward Agreement prior to the Termination Date in order to permit the Fund to fund monthly distributions, redemptions and repurchases of Units and its operating expenses from time to time.

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

Securities Lending

In order to generate additional returns, the Fund may lend Common Share Portfolio securities to securities borrowers acceptable to the Fund pursuant to the terms of a securities lending agreement between the Fund and any such borrower under which (i) the borrower will pay to the Fund a negotiated securities lending fee and will make compensation payments to the Fund equal to any distributions received by the borrower on the securities borrowed; (ii) the securities loans must qualify as “securities lending arrangements” for the purposes of the Tax Act; and (iii) the Fund will receive prescribed collateral security which it may pledge as security under the Forward Agreement.

THE PORTFOLIO

The Fund intends to obtain exposure to the performance of a portfolio (the “Portfolio”) consisting of income producing securities including Canadian business income trusts, real estate investment trusts (“REITs”), utility income trusts, corporate bonds and convertible bonds. In addition, from time to time, the Portfolio may include significant cash and cash equivalents.

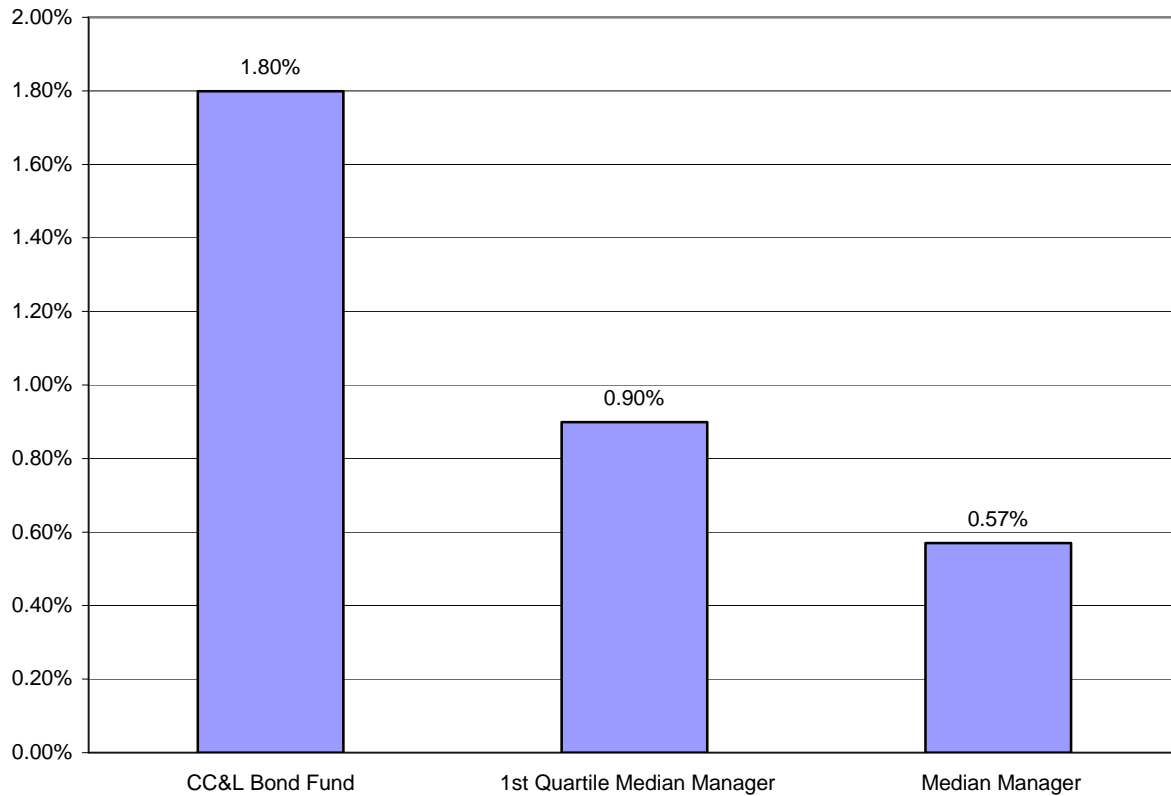
Investment Management Approach

Connor, Clark & Lunn Investment Management Ltd. (the “Investment Manager”) will provide investment advisory and portfolio management services to Conservative Income Fund II. As at July 31, 2005, the Investment Manager managed assets worth approximately \$16 billion and its 12 person fixed income team manages approximately \$5.5 billion of these assets and, in addition, manages the CC&L Income Fund Composite (defined below) and the investment portfolio of the CC&L Conservative Income Fund (defined below). The Manager believes that the fixed income team brings a unique credit-oriented approach to investing in income trust securities. This approach, combined with the inclusion of fixed income securities, has historically resulted in a portfolio that has outperformed the income trust index in down markets while providing solid performance in up markets. The team works in conjunction with the Investment Manager’s equity team and is supported by an analytic staff of 23 people.

The fixed income team has a proven track record of outperformance. The CC&L Bond Fund has had an average annual value added of 0.29% above the Scotia Capital Universe Bond Index over the last five years, which ranks it among the first quartile of Canadian bond managers over that period, and has performed above such index in 87.5% of the rolling 12-month periods over this time. A full presentation in respect of the CC&L Bond Fund is available upon request. This strong investment performance has resulted in over \$1 billion of new mandates during the past year.

The Investment Manager has performed particularly well both in absolute terms and relative to other fixed income managers during down markets. The following chart reflects the performance of the CC&L Bond Fund during all months with negative returns over the past five years relative to the performance of the median first quartile Canadian bond fund manager and the median Canadian bond fund manager over the same periods:

Five Year Added Value during Months with Negative Index Returns ending June 2005



Notes:

1. Bars reflect the sum of the monthly returns for all months in which the Scotia Capital Universe Bond Index experienced negative returns during the past five years, less the sum of the monthly returns of that index during the same period.
2. Median information supplied by Morningstar (Institutional Pooled). First quartile median calculated by Connor, Clark & Lunn Financial Group includes only managers of similar bond universe mandates. Quartile break points and median include all managers.
3. Returns and comparative returns are presented before deducting fees.

The Portfolio will be managed using the same investment approach as the Investment Manager applies to the Connor, Clark and Lunn Income Fund Composite (the “CC&L Income Fund Composite”), which consists of a single fund, the Private Client Income Fund, and Connor, Clark & Lunn Conservative Income Fund (“CC&L Conservative Income Fund”). The CC&L Income Fund Composite was established in February 2001 and CC&L Conservative Income Fund completed its initial public offering in December 2004. One of the principal goals of this investment approach is to create a portfolio that outperforms in down markets while providing solid performance in up markets. Since the CC&L Income Fund Composite has a longer track record than CC&L Conservative Income Fund, the performance information presented below focuses on the performance of the CC&L Income Fund Composite.

CC&L Income Fund Composite

The CC&L Income Fund Composite was established in February 2001 with an investment approach similar to that of the Portfolio. Over the period from inception of the fund to June 30, 2005, its net asset value per unit increased from \$10.00 to \$16.92 and quarterly distributions totalled \$4.55 per unit. The average annual distribution has been approximately 10.0% measured against initial unit value. Total assets of the fund were approximately \$118 million on June 30, 2005. A full presentation in respect of the CC&L Income Fund Composite is available upon request. Annualized total returns of the CC&L Income Fund Composite are illustrated in the table below:

Average Annual Total Returns as of June 30, 2005

	<u>One Year</u>	<u>Two Year</u>	<u>Three Year</u>	<u>Four Year</u>	<u>Since Inception (February 2001)</u>
CC&L Income Fund Composite	24.39%	22.76%	19.87	20.13	19.78%

Notes:

1. Returns have been reduced to reflect estimated annual fees and expenses of the CC&L Conservative Income Fund of 1.63% and are based on monthly data.
2. While the Portfolio will be managed on substantially the same basis as the CC&L Income Fund Composite there are differences in the investment objectives and strategy, including the use of leverage, that will result in different performance.
3. The performance data quoted above represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted.

The CC&L Income Fund Composite's asset mix since inception is summarized in the table below:

	Income Trusts	High Yield Bonds	Convertible Bonds	Investment Grade Bonds & Cash
Current	71.00%	3.30%	3.40%	22.30%
Maximum	78.22%	4.50%	6.56%	40.80%
Minimum	56.29%	0.00%	0.00%	15.14%

Units of the CC&L Conservative Income Fund were issued at \$10.00 per unit on December 15, 2004. At July 29, 2005, the closing price of the units on the Toronto Stock Exchange (the "TSX") was \$9.87 and distributions had totalled \$0.3798 per unit since inception. The Manager believes that the success of the CC&L Conservative Income Fund's investment strategy is best illustrated by the total return earned on the fund's portfolio. The CC&L Conservative Income Fund's initial net asset value was \$9.43 and net asset value on July 29, 2005 was \$10.52. Including distributions, the total return earned on the portfolio of CC&L Conservative Income Fund from inception to July 29, 2005 was 16.48%, net of fees and expenses. The estimated annual expenses of the Fund are higher than those of the CC&L Income Fund Composite and the CC&L Conservative Income Fund as a result of the Fund's tax-efficient structure.

The CC&L Conservative Income Fund's current asset mix is summarized in the table below:

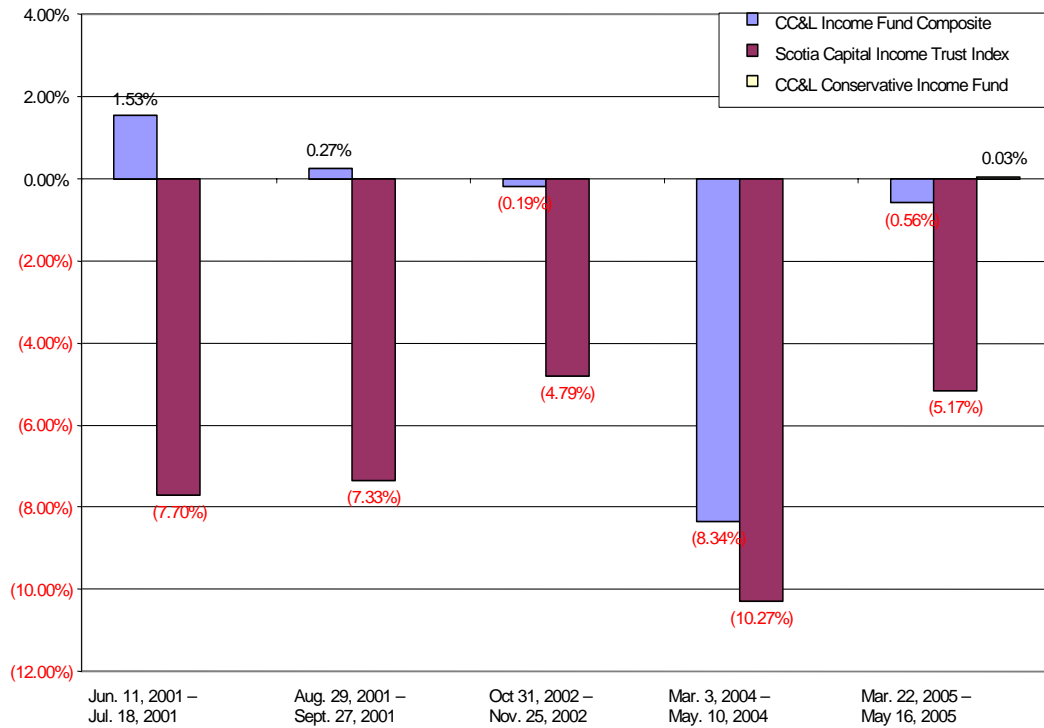
	Income Trusts	High Yield Bonds	Convertible Bonds	Investment Grade Bonds & Cash
Current	79.7%	5.1%	0.7%	14.4%

Since inception, the amount of leverage employed by the CC&L Conservative Income Fund has ranged from 0% to 2% of total assets. As of the date of this prospectus, no leverage is employed.

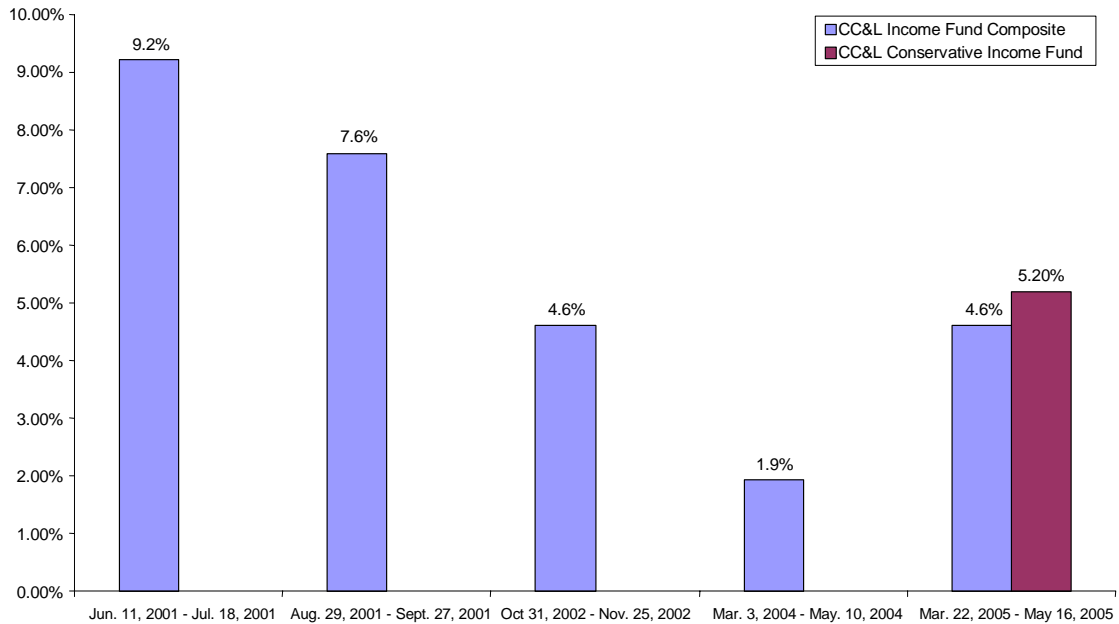
As with the CC&L Income Fund Composite, the Investment Manager will employ a disciplined, conservative process with respect to the Portfolio aimed at generating stable cash flows and preserving capital. A wide range of income generating assets will be evaluated using a bottom-up, company level analysis which emphasizes credit-oriented factors. This analysis will drive both security selection and asset allocation. The Portfolio's sensitivity to quantitative, macro-economic factors such as interest rates and economic growth will be continuously monitored. When the Investment Manager considers it appropriate, adjustments will be made to the asset mix of the Portfolio and/or interest rate hedging strategies will be used.

One of the principal goals of this investment approach is to create a portfolio that outperforms in down markets while providing solid performance in up markets. The historical performance of the CC&L Income Fund Composite demonstrates the success of this strategy. Up market performance is demonstrated by the performance of the CC&L Income Fund Composite, which has returns that would have made it a top quartile performer in the Canadian income trust category, using Morningstar's measurement criteria, over the three year period ending June 30, 2005 and since the fund's inception. Down market outperformance can be seen in the performance of the CC&L Income Fund Composite relative to the Scotia Capital Income Trust Index during the five worst periods of negative performance since the inception of the CC&L Income Fund Composite. During those five periods, the sum of the returns of the CC&L Income Fund Composite was -7.30%, compared to -35.25% as well as the relative outperformance for the index. Comparative returns for each of the five periods with negative returns are illustrated in the following chart:

Outperformance of CC&L Income Fund Composite in Periods of Negative Performance¹



Relative Outperformance in Down Markets



Notes:

1. The periods illustrated represent the five largest peak to trough declines in the Scotia Capital Income Trust Index since the inception of the CC&L Income Fund Composite (February 2001).
2. Returns of the CC&L Income Fund Composite have been reduced to reflect estimated annual fees and expenses of the CC&L Conservative Income Fund of 1.63% and are based on monthly data. The estimated annual expenses of the Fund are higher than those of the CC&L Income Fund Composite and the CC&L Conservative Income Fund as a result of the Fund's tax-efficient structure. See "Fees and Expenses".

3. Information on the Scotia Capital Income Trust Index is supplied by Scotia Capital Inc.
4. The performance data quoted above represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted.

Security Selection

The chart below indicates the permitted asset allocation ranges and the expected initial asset allocation in the Portfolio. The current yields indicated reflect the Investment Manager's expectations of yield, based on the portfolio of the CC&L Conservative Income Fund:

	Current Yield ⁽¹⁾	Initial Portfolio	Permitted Ranges
Income Trusts	7.7%	75 - 80%	40 - 90%
Investment Grade Corporate Bonds	5.9%	10 - 15%	0 - 50%
Other Income-Oriented Securities⁽²⁾	6.9%	5 - 10%	0 - 25%
Cash & Equivalents	2.5%	0 - 5%	0 - 20%

Notes:

- (1) Estimates for current yield are based on the following:
Income Trusts, Investment Grade Corporate Bonds and Other Income-Oriented Securities – weighted average yield in the CC&L Conservative Income Fund portfolio.
Cash & Equivalent – Scotia Capital 91-Day T-Bill Index.
- (2) May include bonds that are rated below investment grade.

The evaluation of both bonds and income trusts is conducted by the fixed-income team, which relies on a credit-oriented framework to identify those securities that the Investment Manager considers as likely to produce the desired portfolio characteristics. Corporate bond selection is based on a structured checklist approach, incorporating over 50 financial, operating, competitive and market considerations and including statistics generated by proprietary models. This structured selection process ensures that all issuers are evaluated on a consistent basis.

While income trust securities are equities rather than debt, the Investment Manager's investment process for trusts incorporates more emphasis on credit-oriented factors than is typical for the analysis of equity instruments. The Investment Manager evaluates income trusts in accordance with criteria adapted from its credit-oriented fixed-income checklist adjusted to reflect the particular requirements of investing in businesses that are managed to maximize cash distributions. The Investment Manager's conservative bias leads to an emphasis on business income trusts, REITs and utility income trusts.

Security evaluation in the income trust sector particularly focuses on the following factors:

Competitive position: The Investment Manager is attracted to businesses with a dominant market position (ideally a monopolistic or oligopolistic environment), that benefit from the existence of barriers to entry, and that have some potential pricing power.

Stability of revenue stream: The Investment Manager looks for investment opportunities in income trusts where they have a high degree of confidence regarding the sustainability of revenues of such issuer. While an issuer's competitive position and asset quality are important to achieving this objective, it can also be accomplished in situations where revenues are based on contractual arrangements, such as long-term leases in the REIT segment, or power purchase agreements in the utility income trust segment.

Commitment to appropriate levels of reinvestment: As the sustainability of cash flows in most income trusts is based on the quality of the underlying assets (e.g., well maintained real estate or power generating facilities), particular attention is paid to confirming that sustaining capital expenditure levels are adequate to maintain the value of those assets.

Access to capital: The Investment Manager avoids those businesses where access to low cost capital may not be sufficient to justify their valuation. This is particularly true in cases where access to capital is a requirement to replenish depleting assets.

Interest rate sensitivity: In setting its valuation parameters, the Investment Manager takes into account an income trust's sensitivity to changes in borrowing costs.

Management structure: The Investment Manager seeks to invest in income trusts with structures that are simple and that maximize the alignment of management and unitholders' interests. Trusts with external management contracts are not favoured. "Foreign content" trusts are in general avoided.

Valuation: A standardized methodology is used to compare the valuation of securities across the income trust sector. The Investment Manager calculates the sustainable distributable cash flow yield, which is defined as sustainable distributable cash flow per unit divided by unit price, for each income trust analyzed. The key variable in this valuation measure, sustainable distributable cash flow, is the Investment Manager's assessment of the cash flow that the income trust can reasonably be expected to generate on an annual basis, indefinitely. The Investment Manager prefers the sustainable distributable cash flow metric because, unlike EBITDA (earnings before interest, taxes, depreciation and amortization), it takes into consideration interest costs, taxes, and capital expenditures, which are real cash costs. Qualitative factors illustrated above, as well as quantitative risk measures, such as the amount of debt leverage in the income trust, are used to determine the appropriate sustainable distributable cash flow yield target for each income trust.

Interest Rate Management

The Investment Manager devotes considerable resources towards managing the interest rate exposure inherent in all of its income oriented investments. This is accomplished by portfolio design and construction as well as through the periodic use of derivative instruments such as interest rate futures and options to hedge this exposure. Where appropriate and consistent with the investment restrictions of Conservative Income Fund II, the Investment Manager intends to employ these and other techniques in the management of the Portfolio. The hedging strategy is designed to protect against significant interest rate increases that may occur over an investment horizon. Such strategy is not intended to enhance the returns of the Portfolio but only to minimize the impact of increases in interest rates. A portfolio constructed for a rising rate environment is one that is biased towards instruments, whose prices are expected to fall less when rates rise, such as bonds with a short time to maturity or the income trust units of businesses with pricing power. Examples of hedging strategies used by the Investment Manager include short selling bonds or interest rate futures or buying options to pay a fixed interest rate by way of a swap agreement. The Investment Manager believes that the hedging strategies it employs will assist Conservative Income Fund II to achieve its investment objectives.

MANAGEMENT OF THE FUND

The Manager

Connor, Clark & Lunn Capital Markets Inc. will perform management and investment management services for the Fund pursuant to the terms of the Trust Agreement. The Manager will be entitled to receive fees as compensation for management services rendered to the Fund. See "Duties and Services to be Provided by the Manager" below and "Fees and Expenses".

The Manager managed over \$1.2 billion in assets as at July 31, 2005, including through ROC Pref Corp., ROC Pref II Corp., ROC Pref III Corp., CC&L Conservative Income Fund, Connor, Clark & Lunn Real Return Income Fund, SNP Health Split Corp. and SNP Split Corp. The Manager is part of the Connor, Clark & Lunn Financial Group, which also includes Connor, Clark & Lunn Investment Management Ltd., Connor, Clark & Lunn Private Capital Ltd., Baker Gilmore & Associates Inc., PCJ Investment Counsel Ltd., Scheer Rowlett & Associates Investment Management Ltd., New Star Canada Inc., Banyan Capital Partners Management Partnership and Tera Inc. (collectively, the "CC&L Group"). The CC&L Group, with approximately \$29 billion in assets under management as at July 31, 2005, offers professional management of financial assets for pension plan sponsors, capital accumulation plans, corporations, foundations, mutual funds and individual investors.

Duties and Services to be Provided by the Manager

Pursuant to the Trust Agreement, the Manager has full authority and responsibility to manage and direct the business and affairs of the Fund, to make all decisions regarding the business of the Fund and to bind the Fund. The Manager may delegate certain of its powers to third parties where, in the discretion of the Manager, it would be in the best interests of the Fund to do so. Among other restrictions imposed on the Manager, it may not dissolve the Fund or wind up the Fund's affairs except in accordance with the provisions of the Trust Agreement.

The Manager's duties will include negotiating contracts with certain third-party service providers, including, but not limited to, custodians, registrars, transfer agents, auditors and printers; obtaining the services of dealers in exchange for payment of the Service Fee; authorizing the payment of operating expenses incurred on behalf of the Fund; maintaining accounting records for the Fund; preparing the Fund's reports to Unitholders and to the Canadian securities regulators; calculating the amount and determining the frequency of distributions by the Fund; preparing financial statements, income tax returns and financial and accounting information as required by the Fund; ensuring that Unitholders are provided with financial statements and other reports as are required from time to time by applicable law; ensuring that the Fund complies

with regulatory requirements including the continuous disclosure requirements of the Fund under applicable securities laws; providing the Trustee with the information and reports necessary for it to fulfil its fiduciary responsibilities; administering the redemption and market purchases of Units; administering the Forward Agreement including partial or early settlement thereof; arranging for any payment required on or about the Termination Date; and dealing and communicating with Unitholders. The Manager will provide office facilities and personnel to carry out these services, together with clerical services that are not furnished by the Trustee or transfer agent of the Fund. The Manager will monitor the Fund's investment strategy to ensure compliance with the Investment Guidelines, and that the net proceeds of the Offering are invested as described under "Use of Proceeds". The Manager will also be responsible for selecting the Common Share Portfolio held by the Fund.

The Manager will enter into the registrar, transfer agency and distribution agency agreement as referred to under "Auditors, Transfer Agent, Registrar and Custodian". Such agreement does not in any way release the Manager from compliance with its obligations to the Fund under the Trust Agreement. The Manager may terminate the foregoing agreement upon notice.

The Manager is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Fund, and to exercise the care, diligence and skill that a reasonably prudent manager would exercise in comparable circumstances. The Trust Agreement provides that the Manager will not be liable in any way for any default, failure or defect in any of the securities comprising the investment portfolio of the Fund if it has satisfied its duties and the standard of care, diligence and skill set forth above. The Manager will incur liability in cases of wilful misconduct, bad faith, negligence or the disregard of its obligations or duties or breach of its standard of care. The Manager and each of its directors, officers, employees and agents will be indemnified by the Fund for all costs, claims, charges, liabilities and expenses actually and reasonably incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against the Manager or any of its officers, directors, employees or agents in the exercise of its duties under the Trust Agreement, except those resulting from such person's wilful misconduct, bad faith, negligence or the disregard of its obligations or duties or breach of its standard of care in relation to the matter in respect of which indemnification is claimed.

The Manager may resign upon 60 days' notice to the Fund and the Unitholders or upon such lesser notice period as the Fund may accept. If the Manager resigns it may appoint its successor but, unless its successor is an affiliate of the Manager, the successor must be approved by Unitholders. The Manager may be removed upon 90 days' written notice by an Extraordinary Resolution of the Unitholders (as defined under "Unitholder Matters – Meetings of Unitholders and Extraordinary Resolutions") in the event the Manager is in material breach or default of the provisions of the Trust Agreement and, if capable of being cured, such breach or default has not been cured within 20 business days' notice of such breach or default (a "business day" being any day on which the TSX is open for trading). If the Manager is removed, any successor manager must be approved by the Unitholders prior to appointment by the Trustee on behalf of the Fund. The Manager is deemed to have resigned in certain circumstances, including if the Manager becomes bankrupt or insolvent or in the event the Manager ceases to be resident in Canada for the purposes of the Tax Act. The resignation or removal of the Manager shall only become effective upon the appointment of a replacement manager. If, within 90 days after the resignation or removal of the Manager, the Unitholders have not directed the Trustee to appoint a successor manager, the Fund shall be terminated.

As compensation for management services rendered to the Fund, the Manager is entitled to receive an annual management fee in an amount equal to 0.75% of the NAV, together with the service fee (the "Service Fee") to be paid by the Manager to each dealer whose clients hold Units, plus applicable taxes, accrued daily and payable monthly in arrears based on the NAV as at the last Valuation Date of each month (as defined under "Valuation").

The Manager will not receive any performance fees from the Fund.

Officers and Directors of the Manager

The name, municipality of residence, position with the Manager and principal occupation of each of the directors and officers of the Manager are set out below:

<u>Name and Municipality</u>	<u>Position with the Manager</u>	<u>Principal Occupation</u>
W. NEIL MURDOCH Oakville, Ontario	Director, President and Chief Executive Officer	Director, President and Chief Executive Officer, Connor, Clark & Lunn Capital Markets Inc.

<u>Name and Municipality</u>	<u>Position with the Manager</u>	<u>Principal Occupation</u>
PHILIP K. GOW Toronto, Ontario	Director, Chief Financial Officer and Secretary and Compliance Officer	Director, Chief Financial Officer, Secretary and Compliance Officer, Connor, Clark & Lunn Capital Markets Inc.
MICHAEL W. FREUND Toronto, Ontario	Director and Chairman	Managing Partner, Connor, Clark & Lunn Financial Group
GLENN M. PITTMAN Burlington, Ontario	Senior Vice-President	Senior Vice-President, Connor, Clark & Lunn Capital Markets Inc.
JENNIFER L. STEWART Toronto, Ontario	Vice-President and Associate Portfolio Manager	Vice-President, Connor, Clark & Lunn Capital Markets Inc.
BONNIE L.M. CHWARTACKI Toronto, Ontario	Vice-President Sales, Western Canada	Vice-President, Sales, Western Canada, Connor, Clark & Lunn Capital Markets Inc.

W. Neil Murdoch: *CFA, BComm, McGill University; LLB, University of Toronto; Master of Management, Kellogg Graduate School of Management, Northwestern University.* Mr. Murdoch joined Connor, Clark & Lunn Capital Markets Inc. in December 2003. Prior thereto, Mr. Murdoch was Executive Vice-President and Portfolio Manager at AIC Group of Funds.

Philip K. Gow: *CFA, BA, Dalhousie University; MBA, Saint Mary's University.* Mr. Gow was a managing director of Brenton Reef Capital Inc. (which was acquired by CC&L Capital Markets Partnership in April 2001) from 1997 to April 2001 and has been a director and investment manager of Connor, Clark & Lunn Capital Markets Inc. since April 2001.

Michael W. Freund: *B.Bus.Sci., University of Capetown.* Mr. Freund has held various management positions within the CC&L Group of companies since 1997. Mr. Freund's current principal occupation is Managing Partner of the Connor, Clark & Lunn Financial Group.

Glenn M. Pittman: *BComm, Memorial University of Newfoundland.* Mr. Pittman joined Connor, Clark & Lunn Capital Markets Inc. in early 2004. Prior thereto, Mr. Pittman was Vice-President and National Sales Manager at AIC Group of Funds.

Jennifer L. Stewart: *CFA, BA, University of Western Ontario.* Ms. Stewart has been with Connor, Clark & Lunn Capital Markets Inc. since March 2002. Prior thereto, Ms. Stewart was a Canadian Equities Specialist at Merrill Lynch Canada Inc., with a niche focus on the income trust and structured products areas.

Bonnie L.M. Chwartacki: *BComm (Hons.) University of Manitoba.* Ms. Chwartacki has been with Connor, Clark & Lunn Capital Markets Inc. since the fall of 2004. Prior thereto, Ms. Chwartacki was Regional Vice-President for Western Canada at AIC Group of Funds.

Proxy Voting Policies and Procedures

With regard to voting on matters for which the Fund receives, in its capacity as a shareholder, proxy materials for a meeting of securityholders of an issuer, the Manager has a fiduciary duty to act solely in the best interests of the Fund. The Manager intends to vote securities in a timely manner and make voting decisions that are in the best interests of the Fund. In addition to its own research, the Manager may pay Institutional Shareholder Services Inc. ("ISS"), an independent proxy review service, to provide an analysis of non-routine proxy issues. In most cases proxy items are routine issues and no further comment is made. In a small percentage of cases where the situation is considered to be non-routine a significant amount of additional work may be performed.

The Advisory Board

The Fund will establish an advisory board (the "Advisory Board") consisting of at least two members appointed by the Manager each of whom will be independent of the Manager, the Investment Manager, and each of their affiliates, and free from any interest and any business or other relationship which could, or could be reasonably perceived to, materially interfere with the exercise of an Advisory Board member's judgement. The Advisory Board will provide independent advice to the Manager to assist them in performing their services under the Trust Agreement or Conservative Income Fund II Agreement, as applicable, including with respect to conflicts of interest or potential conflicts of interest (other than those described under "Conflicts of Interest") or related party transactions identified by the Manager. The members of the Advisory Board are

required to act honestly and in good faith in the best interests of the Fund, the Unitholders, and Conservative Income Fund II, as the case may be, and in connection with that duty will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Manager will report to the Advisory Board on the operation and performance of the Fund and Conservative Income Fund II, as applicable, on a quarterly basis, including with respect to compliance with applicable investment restrictions and material contracts as amended from time to time.

The Manager will be required under the Trust Agreement and the Conservative Income Fund II Trust Agreement, as applicable, to notify each member of the Advisory Board in writing of any conflicts of interest, potential conflicts of interest or related party transactions concerning the Manager, the Fund, or Conservative Income Fund II, as applicable (other than any such conflicts of interest, potential conflicts of interest or related party transactions relating to matters with respect to which the approval of Unitholders is required under the Trust Agreement or the unitholders under the Conservative Income Fund II Trust Agreement) and to consult with the Advisory Board in respect of any such conflicts of interest, potential conflicts of interest or related party transactions.

In the event of a dispute between the Advisory Board and the Manager with respect to a conflict of interest, potential conflict of interest or related party transaction, upon written direction of the Advisory Board, the Manager will call a meeting of Unitholders or limited partners, as applicable, to consider the conflict of interest, potential conflict of interest or related party transaction.

The Fund's annual report to Unitholders and Conservative Income Fund II's annual report to its unitholders will each include any report by the Advisory Board summarizing any recommendations made by the Advisory Board, including recommendations made and not followed by the Manager, as applicable, and any other matter that the Advisory Board determines to be appropriate in the circumstances.

All fees and expenses of the Advisory Board incurred in connection with its duties with respect to the Fund or Conservative Income Fund II will be paid by the Fund. The Advisory Board will have the authority to retain, at the expense of the Fund, independent counsel or other advisors if the Advisory Board deems it appropriate to do so. See "Fees and Expenses".

The members of the Advisory Board will be indemnified by the Fund or Conservative Income Fund II, as the case may be, except in cases of wilful misconduct, bad faith, negligence or breach of their standard of care. The Advisory Board members will not be responsible for the investments made by the Fund, or for the performance of the Fund. The members of the Advisory Board may serve in a similar capacity in respect of other entities managed by the Manager.

The following is a brief description of the backgrounds of the proposed members of the Advisory Board:

Arthur Donner is a Toronto-based economic consultant. His research and consulting have ranged widely in the field of economics and public policy – macroeconomics, finance, pension issues, labour economics, environmental issues, industrial policy and communications policy. His career has moved between universities, governments and the private sector, and he continues to be a commentator in the media. Mr. Donner is on the Board of Directors of the First Ontario Fund, an Ontario-based venture capital fund. He is also a member of the Investment Advisory Committee of the Nunavut Trust. In September of 2002, Mr. Donner was appointed to the Board of Social Housing Services Corporation Financial Inc. As well, he has been a member of the Investment Committee of the Atkinson Charitable Foundation for a number of years, and has been Chair of the Investment Committee for the past four years. In July 2005, Mr. Donner was appointed a special advisor to the Federal Minister of Housing, Joe Fontana, on the development of new aboriginal housing institutions.

Selwyn Kletz is President, North America of Asset Management Investment Company PLC, a British based company engaged in the business of investing in investment counselling companies, having served as President and CEO of AMIC Canada Limited since its inception. He was previously a Managing Director of CIBC Wood Gundy Securities Inc. where he managed the Global Equity Research Department and served as a member of the Equity Management Committee and the Investment Committee of the merchant banking arm. Earlier in his career, Mr. Kletz founded and managed MYW Financial Management (since incorporated into Scotia Investment Management Limited), Laurim Capital Management Inc. and Laurentian Investment Management (Canada) Inc. Mr. Kletz has more than 30 years of experience in the investment business.

Accounting and Reporting

The Fund's fiscal year will end on March 31 in each year and its taxation year will end on December 31 in each year or such other fiscal period permitted under the Tax Act as the Fund elects. The Manager will ensure that the Fund complies with all applicable reporting and administrative requirements.

The Manager will keep adequate books and records reflecting the activities of the Fund. A Unitholder or his or her duly authorized representative will have the right to examine the books and records of the Fund during normal business hours at the offices of the Manager. Notwithstanding the foregoing, a Unitholder shall not have access to any information that, in the opinion of the Manager, should be kept confidential in the interests of the Fund.

The Fund Custodian

The Royal Trust Company will act as custodian (the "Fund Custodian") of the assets of the Fund pursuant to the Trust Agreement. However, the Common Share Portfolio will be pledged by the Fund to the Counterparty under the Forward Agreement and may be held by the Counterparty instead of the Fund Custodian.

CONSERVATIVE INCOME FUND II

Conservative Income Fund II is a newly formed investment trust that was established under the laws of the Province of Ontario pursuant to a trust agreement dated September 29, 2005 between CC&L, as manager of Conservative Income Fund II, and The Royal Trust Company, as trustee (the "Conservative Income Fund II Trust Agreement"). See "The Trustee". Conservative Income Fund II will terminate on or about the Termination Date (or such later date upon which the Fund terminates) if not terminated earlier in accordance with its terms.

Conservative Income Fund II will distribute all of its net income and net realized capital gains earned in each taxation year to ensure that it is not subject to tax on taxable income under the Tax Act.

Units of Conservative Income Fund II are redeemable at the demand of its unitholders on a daily basis.

Investment Restrictions of Conservative Income Fund II

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

- (i) **Investments.** Conservative Income Fund II will not, for a period of more than 90 days, have: (a) less than 40% or more than 90% of the value of the Portfolio invested in units of income trusts; (b) more than 50% of the value of the Portfolio invested in investment grade corporate bonds; (c) more than 25% of the value of the Portfolio invested in other income-oriented securities; and (d) more than 20% of the value of the Portfolio invested in cash and cash equivalents. Any cash equivalents in which Conservative Income Fund II invests must be rated at least investment grade.
- (ii) **Concentration.** Not more than 10% of the assets (determined at the time of purchase) of the Portfolio will be invested in any one issuer.
- (iii) **Leverage.** Conservative Income Fund II may not borrow or use other forms of leverage in an aggregate in excess of 15% of the assets at the time the borrowing or other leverage is entered into. See "Leverage Transactions" below.
- (iv) **Commodities.** The Investment Manager will not purchase or sell commodities or commodity contracts for the Portfolio.
- (v) **Illiquid Securities.** Not more than 10% of the assets (determined at the time of purchase) of the Portfolio will be invested in "illiquid securities". The term "illiquid securities" for this purpose means securities that cannot be disposed of within seven days in the ordinary course of business at approximately the amount at which the securities are valued for the Portfolio.
- (vi) **Real Estate other than REITs.** Conservative Income Fund II will not purchase real estate (other than through the purchase of securities of issuers that invest in real estate or interests therein, including REITs).

- (vii) **Control.** Conservative Income Fund II will not own more than 10% of the outstanding equity securities of an issuer or purchase the securities of an issuer for the purpose of exercising control over management of that issuer.
- (viii) **No Guarantee.** Conservative Income Fund II will not guarantee securities or obligations of another person or company other than the Manager, and then only in respect of the activities of Conservative Income Fund II.

Leverage Transactions

As part of its strategy, the Investment Manager will employ leverage in the Portfolio to enhance returns when it considers market conditions appropriate. The Investment Manager intends to reduce or eliminate leverage and may increase the allocation to cash when the Investment Manager believes the outlook for market performance is unfavourable. Subsequent to the closing of the Offering, Conservative Income Fund II intends to enter into a loan facility with a Canadian chartered bank (the “Lender”), which may be affiliated with one of the Agents, or add leverage to the Portfolio by utilizing a variety of additional strategies, including but not limited to trading on margin, derivative instruments that are inherently leveraged, including forward contracts, futures contracts and swaps, repurchase agreements and other forms of direct and indirect borrowings (the loan facility and other leverage transactions collectively, the “Leverage Transactions”). The aggregate amount of borrowings and other leverage under the Leverage Transactions may not exceed 15% of the assets of Conservative Income Fund II. Such leverage may be used to purchase additional securities for the Portfolio. It is expected that the terms, conditions, interest rates, fees and expenses, as applicable, of and under the Leverage Transactions would be typical for transactions of this nature and that the Lender or counterparty (which may be a Canadian chartered bank or an affiliate of a Canadian chartered bank, either or both of which may be affiliated with one of the Agents) will require Conservative Income Fund II to provide a security interest in some or all of its assets in favour of the Lender or counterparty to secure such obligations. If leverage of 15% of the total assets is employed, the Portfolio will have a debt-to-equity ratio of 0.176:1 representing a total asset-to-equity ratio of 1.176:1.

The use of leverage to enhance returns on the Portfolio may result in capital losses or a decrease in net cash distributions to Unitholders.

In the event that the total amount borrowed or otherwise subject to leverage by Conservative Income Fund II exceeds the 15% limit, indebtedness will be reduced on a commercially reasonable basis as soon as practicable so that the amount borrowed or otherwise subject to leverage does not continue to exceed such limit. If the total amount borrowed or otherwise subject to leverage by Conservative Income Fund II exceeds 20% of the total assets of Conservative Income Fund II, indebtedness will be reduced immediately such that the amount borrowed or otherwise subject to leverage does not constitute more than 15% of the total assets of Conservative Income Fund II.

Other than borrowings or other transactions by Conservative Income Fund II under the Leverage Transactions Conservative Income Fund II will not engage in other borrowings or leverage transactions.

Use of Derivative Instruments

Derivative instruments will only be used for purposes of hedging or to add leverage to the Portfolio as described above under “Leverage Transactions”. Counterparty risk arising from derivative transactions will be limited to credits rated “A” or better, as defined by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (or an equivalent rating from another recognized rating agency). Instruments used may include but are not limited to forward contracts, futures contracts, options, swaps and structured notes.

MANAGEMENT OF CONSERVATIVE INCOME FUND II

The Manager

Connor, Clark & Lunn Capital Markets Inc. will perform management services for Conservative Income Fund II pursuant to the Conservative Income Fund II Trust Agreement. The Manager will be entitled to receive fees as compensation for management services rendered to Conservative Income Fund II. See “Fees and Expenses”. The Manager is responsible for payment of the investment management fees of the Investment Manager related to Conservative Income Fund II.

Duties and Services to be Provided by the Manager

The Manager has exclusive authority to manage the operations and affairs of Conservative Income Fund II, to make all decisions regarding the business of Conservative Income Fund II and to bind Conservative Income Fund II. The Manager

may delegate certain of its powers to third parties where, in the discretion of the Manager, it would be in the best interests of Conservative Income Fund II to do so.

Accounting and Reporting

Conservative Income Fund II's fiscal year will end on March 31 in each year and its taxation year will end on December 31 in each year or such other date permitted under the Tax Act as Conservative Income Fund II elects. The Manager will ensure that Conservative Income Fund II complies with all applicable reporting and administrative requirements.

The Manager will keep adequate books and records reflecting the activities of Conservative Income Fund II. A unitholder or his or her duly authorized representative will have the right to examine the books and records of Conservative Income Fund II during normal business hours at the offices of the Manager. Notwithstanding the foregoing, subject to applicable law, a unitholder shall not have access to any information which, in the opinion of the Manager, should be kept confidential in the interests of the Fund.

The Advisory Board

Conservative Income Fund II will establish an advisory board (the "Advisory Board") consisting of at least two members appointed by the Manager each of whom will be independent of the Manager, the Investment Manager, and each of their affiliates, and free from any interest and any business or other relationship which could, or could be reasonably perceived to, materially interfere with the exercise of an Advisory Board member's judgement. The Advisory Board will provide independent advice to the Manager to assist it in performing its services under the Trust Agreement or Conservative Income Fund II Trust Agreement, as applicable, including with respect to conflicts of interest or potential conflicts of interest (other than those described under "Conflicts of Interest") or related party transactions identified by the Manager. The members of the Advisory Board are required to act honestly and in good faith in the best interests of the Fund, the Unitholders, and Conservative Income Fund II, as the case may be, and in connection with that duty will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Manager will report to the Advisory Board on the operation and performance of the Fund and Conservative Income Fund II, as applicable, on a quarterly basis, including with respect to compliance with applicable investment restrictions and material contracts as amended from time to time.

The Manager will be required under the Trust Agreement and Conservative Income Fund II Trust Agreement, as applicable, to notify each member of the Advisory Board in writing of any conflicts of interest, potential conflicts of interest or related party transactions concerning the Manager, the Fund, or Conservative Income Fund II, as applicable (other than any such conflicts of interest, potential conflicts of interest or related party transactions relating to matters with respect to which the approval of Unitholders is required under the Trust Agreement or the unitholders under the Conservative Income Fund II Trust Agreement) and to consult with the Advisory Board in respect of any such conflicts of interest, potential conflicts of interest or related party transactions.

In the event of a dispute between the Advisory Board and the Manager with respect to a conflict of interest, potential conflict of interest or related party transaction, upon written direction of the Advisory Board, the Manager will call a meeting of Unitholders or limited partners, as applicable, to consider the conflict of interest, potential conflict of interest or related party transaction.

The Fund's annual report to Unitholders and Conservative Income Fund II's annual report to its unitholders will each include any report by the Advisory Board summarizing any recommendations made by the Advisory Board, including recommendations made and not followed by the Manager, as applicable, and any other matter that the Advisory Board determines to be appropriate in the circumstances.

All fees and expenses of the Advisory Board incurred in connection with its duties with respect to the Fund or Conservative Income Fund II will be paid by the Fund. The Advisory Board will have the authority to retain, at the expense of the Fund, independent counsel or other advisors if the Advisory Board deems it appropriate to do so. See "Fees and Expenses".

The members of the Advisory Board will be indemnified by the Fund or Conservative Income Fund II, as the case may be, except in cases of wilful misconduct, bad faith, negligence or breach of their standard of care. The Advisory Board members will not be responsible for the investments made by the Fund, or for the performance of the Fund. The members of the Advisory Board may serve in a similar capacity in respect of other entities managed by the Manager.

The initial members of the Advisory Board will be Arthur Donner and Selwyn Kletz as described under “Management of the Fund – The Advisory Board”.

Management of Conservative Income Fund II

The Manager will continue as manager of Conservative Income Fund II until terminated in accordance with the terms of Conservative Income Fund II Trust Agreement. The terms of its appointment will be the same as the Trust Agreement. See “Description of Units”.

The Custodian

The Royal Trust Company will act as custodian (the “Conservative Income Fund II Custodian”) of the assets of Conservative Income Fund II pursuant to the Conservative Income Fund II Trust Agreement to be entered into prior to the closing of the Offering between Conservative Income Fund II and Conservative Income Fund II Custodian. Conservative Income Fund II Custodian, or an affiliate of the Conservative Income Fund II Custodian, will also carry out certain aspects of the day-to-day administration of Conservative Income Fund II, including calculating NAV, net income and net realized capital gains of Conservative Income Fund II and maintaining the books and records of Conservative Income Fund II.

THE INVESTMENT MANAGER

The Investment Manager will provide investment advisory and portfolio management advice to Conservative Income Fund II and will actively manage the Portfolio in a manner consistent with the investment restrictions of Conservative Income Fund II pursuant to an investment management agreement (the “Investment Management Agreement”) between the Manager as manager of Conservative Income Fund II and in its own capacity and the Investment Manager dated as of September 29, 2005.

The Investment Manager will be responsible for execution of Conservative Income Fund II’s investment strategy. Decisions as to the purchase and sale of securities and as to the execution of all portfolio and other transactions in connection with the Portfolio will be made by the Investment Manager. The Investment Manager was established in March 1982 and has offices in Vancouver and Toronto, Canada, and had approximately \$16 billion directly under its management as at June 30, 2005. The principal office of the Investment Manager is located at 2200 – 1111 West Georgia Street, Vancouver, British Columbia V6E 4M3.

<u>Name and Municipality</u>	<u>Position with the Investment Manager</u>	<u>Principal Occupation</u>
LARRY R. LUNN Vancouver, British Columbia	Director, Chairman and President	Director, Chairman and President of the Investment Manager
PHILLIP COTTERILL West Vancouver, British Columbia	Director and Vice-President	Director and Vice-President of the Investment Manager
MICHAEL W. FREUND Toronto, Ontario	Director	Managing Partner, Connor, Clark & Lunn Financial Group
MARTIN L. GERBER West Vancouver, British Columbia	Director and Commodity Advising Officer	Director and Commodity Advising Officer of the Investment Manager
BRIAN EBY West Vancouver, British Columbia	Director and Vice-President	Director and Vice-President of the Investment Manager
GORDON H. MACDOUGALL Vancouver, British Columbia	Director and Vice-President	Director and Vice-President of the Investment Manager
J. WARREN STODDART Toronto, Ontario	Director	Managing Partner, Connor, Clark & Lunn Financial Group
SCOTT HACKNEY Etobicoke, Ontario	Vice-President	Vice-President of the Investment Manager

<u>Name and Municipality</u>	<u>Position with the Investment Manager</u>	<u>Principal Occupation</u>
KATHLEEN A. LEAVENS Vancouver, British Columbia	Compliance Officer	Compliance Officer of the Investment Manager
COLIN JANG Toronto, Ontario	Vice-President	Vice-President of the Investment Manager
PATRICK D. ROBITAILLE North Vancouver, British Columbia	Corporate Secretary	Corporate Secretary of the Investment Manager

Except as indicated below, each of the foregoing has held his or her current office or has held a similar office with the Investment Manager during the five years preceding the date hereof.

Mr. Gerber and Mr. Stoddart were appointed to the Board of the Investment Manager in 1999. Mr. Freund was appointed to the Board of the Investment Manager in 2001. Mr. Eby was appointed to the Board of the Investment Manager in 2002. Mr. Cotterill was appointed to the Board of the Investment Manager in 2003. Mr. Jang and Mr. Robitaille were appointed as officers of the Investment Manager in 2003.

The team of investment professionals responsible for investment management at the Investment Manager all have significant experience in managing investment portfolios. The investment managers of the Investment Manager who will be primarily responsible for managing the Portfolio are Warren Stoddart and Brian Eby, who will be assisted by Jane Justice, Chris Kalbfleisch, Jay Menning and Steve Vertes.

Warren Stoddart: *BA, Trinity College, University of Toronto.* Mr. Stoddart is a director of the Investment Manager and Managing Partner of the Connor, Clark & Lunn Financial Group. Mr. Stoddart is co-head of the fixed income team responsible for fixed income management strategy and research and also a member of the risk management team. Mr. Stoddart has 16 years experience covering three separate recessionary periods. In addition to his portfolio management experience, he has participated in the fixed income market as an employee of an issuer of debt, a principal lender to investment and sub-investment grade credits and in debt restructuring and workouts.

Brian Eby: *CFA, MBA, BComm, McMaster University.* Mr. Eby is a director of the Investment Manager and a partner of Connor, Clark & Lunn Investment Management Partnership. Mr. Eby is co-head of the fixed income team responsible for fixed income management strategy and research. Mr. Eby has 16 years experience covering three separate recessionary periods. His experience outside portfolio management includes advising in the structuring/restructuring of public debt programs and underwriting of corporate bonds. Prior to joining the CC&L Group in 1998, Mr. Eby held various roles with Scotia Capital Markets Inc. for 10 years, including Director, Fixed Income, Proprietary Trading.

Steve Vertes: *CFA, BA, University of Western Ontario.* Mr. Vertes is a partner of Connor, Clark & Lunn Investment Management Partnership. Mr. Vertes is responsible for fundamental analysis, research and security selection of Canadian equities and income trusts. In addition to his experience with the Investment Manager, Mr. Vertes also has extensive experience in the field of investment banking.

Jay Menning: *CFA, BComm, University of British Columbia.* Mr. Menning is a partner of Connor, Clark & Lunn Investment Management Partnership. Mr. Menning is a Corporate Bond Specialist at the Investment Manager and is responsible for credit analysis, research and corporate security selection. Mr. Menning has extensive experience in mutual fund research, credit analysis and high-yield bond portfolio management.

S. Jane Justice: *BMgm, Capilano College.* Ms. Justice is a partner of Connor, Clark & Lunn Investment Management Partnership and a member of the fixed income team responsible for bond trading and risk management.

Chris Kalbfleisch: *CFA, MSc, Statistics, University of Western Ontario.* Mr. Kalbfleisch is a partner of Connor, Clark & Lunn Investment Management Partnership and a member of the fixed income team. Mr. Kalbfleisch is a quantitative financial markets specialist and is responsible for research. In addition to his experience with the Investment Manager, Mr. Kalbfleisch has extensive financial market experience that includes alternative asset portfolio management, derivatives trading and credit risk management.

Investment Management Agreement

Under the Investment Management Agreement, the Investment Manager is required to act honestly, in good faith and in the best interests of unitholders of Conservative Income Fund II and, in connection therewith, to exercise the degree of

care, diligence and skill that a reasonably prudent portfolio manager would exercise in comparable circumstances. The Investment Management Agreement provides that the Investment Manager shall not be liable in any way for the making, retention or sale of any investment or for any loss to or diminution of, the assets of Conservative Income Fund II if it has satisfied the duties and standard of care, diligence and skill set forth above. The Investment Manager will incur liability in cases of wilful misconduct, bad faith, negligence or breach of its standard of care.

The Investment Management Agreement, unless terminated as described below, will continue in effect until the termination of Conservative Income Fund II. If the Manager is terminated, the Investment Management Agreement will terminate at such time. The Manager may terminate the Investment Management Agreement if the Investment Manager has committed certain events of bankruptcy or insolvency, has lost any registration, license or other authorization required to perform its services thereunder or is in material breach or default of the provisions thereof and such material breach or default has not been cured within 20 business days after notice thereof has been given to the Investment Manager and the Trustee by the Manager. Except as described above, the Investment Manager cannot be terminated as investment manager of Conservative Income Fund II.

The Investment Manager may terminate the Investment Management Agreement upon 20 business days' notice in the event that the Manager is in material breach or default of the provisions thereof and such material breach or default has not been cured within 20 business days' notice of same to the Manager and to the Trustee, or in the event that there is a material change in the investment restrictions of Conservative Income Fund II.

If the Investment Management Agreement is terminated, the Manager will promptly appoint a successor investment manager to carry out the activities of the Investment Manager until a meeting of unitholders of Conservative Income Fund II is held to confirm such appointment.

The Investment Manager is entitled to fees for its services under the Investment Management Agreement and will be reimbursed for all reasonable costs and expenses incurred by the Investment Manager on behalf of Conservative Income Fund II. In addition, the Investment Manager and each of its directors, officers, employees and agents will be indemnified by Conservative Income Fund II for all claims whatsoever brought against the Investment Manager for any act or omission, except those resulting from the Investment Manager's willful misconduct, bad faith, negligence or breach of its standard of care.

Proxy Voting Policies and Procedures

With regard to voting on matters for which Conservative Income Fund II receives, in its capacity as a shareholder, proxy materials for a meeting of securityholders of an issuer, the Investment Manager has a fiduciary duty to act solely in the best interests of Conservative Income Fund II and its unitholders. It intends to vote securities in a timely manner and make voting decisions that are in the best interests of Conservative Income Fund II and its unitholders. In addition to its own research, the Investment Manager pays ISS, an independent proxy review service, to provide an analysis of all non-routine proxy issues.

THE TRUSTEE

The Royal Trust Company has been appointed the trustee of the Fund pursuant to the provisions of the Trust Agreement. The Trustee will act as custodian of the Fund as described in the Trust Agreement, including on direction of the Manager to pay redemptions to the distribution agent, calculating net asset value, net income and net realized capital gains of the Fund and maintaining the books and records of the Fund.

The Trustee or any successor trustee may resign upon 60 days' written notice to Unitholders and the Manager or may be removed upon 60 days' written notice by an Extraordinary Resolution of the Unitholders (as defined under "Unitholder Matters – Meetings of Unitholders and Extraordinary Resolutions" below). Any such resignation or removal shall become effective only on the acceptance of appointment by a successor trustee. If the Trustee resigns or is removed by Unitholders, the Manager shall appoint a successor trustee. If, after the resignation or removal of the Trustee, no successor has been appointed within 60 days, the Trustee, the Manager or any Unitholder may apply to a court of competent jurisdiction for the appointment of a successor trustee. If a successor trustee is not appointed, the Fund shall be terminated.

The Trustee is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Fund, and to exercise the degree of care, diligence and skill that a reasonably prudent Canadian trust company would exercise in comparable circumstances. The Trust Agreement provides that the Trustee will not be liable in carrying out its duties under the Trust Agreement except in cases of wilful misconduct, bad faith, negligence or breach of its standard of care.

In addition, the Trust Agreement contains other customary provisions limiting the liability of the Trustee and indemnifying the Trustee in respect of certain liabilities incurred by it in carrying out its duties.

The Trustee is entitled to receive fees from the Fund as described under “Fees and Expenses” and to be reimbursed for all expenses and liabilities which are properly incurred by the Trustee in connection with the activities of the Fund.

The Trustee is also the trustee of Conservative Income Fund II pursuant to Conservative Income Fund II Trust Agreement described under “Conservative Income Fund II”. The rights and responsibilities of the Trustee under the Conservative Income Fund II Trust Agreement are substantially equivalent to the rights and responsibilities of the Trustee under the Trust Agreement described above.

DESCRIPTION OF UNITS

Units

The Fund is authorized to issue an unlimited number of redeemable, transferable Units of one class, each of which represents an equal, undivided interest in the net assets of the Fund. To become a Unitholder, an investor must acquire 100 or more Units in the Fund under the Offering. Fractional Units will not be issued.

Each Unit entitles a Unitholder to the same rights and obligations as a Unitholder of any other Unit and no Unitholder is entitled to any privilege, priority or preference in relation to any other Unitholder. Each Unitholder is entitled to one vote for each Unit held, except as described below under “Unitholder Matters – Meetings of Unitholders and Extraordinary Resolutions”, and is entitled to participate equally with respect to any and all distributions made by the Fund. On termination, all Unitholders of record holding outstanding Units are entitled to receive their *pro rata* share of any assets of the Fund remaining after payment of all debts, liabilities and liquidation expenses of the Fund. See “Termination of the Fund”.

The Fund does not currently intend to issue additional Units following completion of the Offering, except: (i) by way of rights offerings to existing Unitholders, private placement or public offering where the subscription amount is not less than the aggregate of the NAV per Unit calculated prior to the pricing of the subsequent offering and the estimated expenses of such offering, or (ii) with the approval of Unitholders by Extraordinary Resolution. See “Unitholder Matters – Meetings of Unitholders and Extraordinary Resolutions”. Immediately after a *pro rata* distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold, after the consolidation, the same number of Units as the Unitholder held before the non-cash distribution (subject to any withholding tax requirements). Subject to the foregoing, the Fund may also allot and issue other securities at such time or times, and in such manner, as the Trustee in its sole discretion shall determine.

To enhance liquidity and to provide market support for the Units, the Fund will have a mandatory market purchase program under which the Fund will, subject to certain exceptions contained in the Trust Agreement (as described under “Description of Units – Units”) and in compliance with any applicable regulatory requirements, be obligated to purchase Units for cancellation on and subject to the terms below. If, on the business day following any Valuation Date, the weighted average price of the Units is less than 95% of the net asset value of the Fund (“NAV”) per Unit (the “NAV per Unit”) determined as at the most recently published Valuation Date, the Fund will offer to purchase for cancellation any Units offered in the market at or below 95% of the NAV per Unit on the following business day. The maximum number of Units purchased in any three month period will be 1.25% of the number of Units outstanding at the beginning of the period (commencing with the three month period that begins on the first day of the month following the closing date of the Offering). The Fund is not obligated to make such purchases if: (i) the Fund lacks the cash, debt capacity or other resources to make such purchases, or (ii) in the opinion of the Manager, such market purchases would adversely affect the ongoing activities of the Fund.

In addition, the Trust Agreement provides that the Fund has the right (but not the obligation), exercisable in its sole discretion, at any time, to purchase for cancellation Units in the market at prices not exceeding the NAV per Unit, subject to any applicable regulatory requirements and limitations. It is expected that such purchases, if made, will be made as normal course issuer bids through the facilities and under the rules of the exchange or market on which the Units are listed, if applicable, as provided for in the Trust Agreement or as otherwise permitted by applicable securities laws.

Book-Entry Only System

A book-entry only certificate representing Units will be issued in registered form to The Canadian Depository for Securities Limited (“CDS”), or its nominee on its behalf, on the date of the closing of the Offering. Any purchase or transfer of Units must be made through participants in the CDS depository service (“CDS Participants”), which includes securities brokers and dealers, banks and trust companies. Indirect access to the CDS book-entry only system is also available to other institutions that maintain custodial relationships with a CDS Participant, either directly or indirectly. Each purchaser of Units will receive a customer confirmation of purchase from the CDS Participant through whom such Units are purchased in accordance with the practices and procedures of such CDS Participant and will not have the right to receive physical certificates evidencing this ownership. Reference in this prospectus to a Unitholder means, unless the context otherwise requires, the owner of the beneficial interest in such Units.

No Unitholder will be entitled to a certificate or other instrument from the registrar and transfer agent or CDS evidencing that person’s interest in or beneficial ownership of Units, or will be shown on the records maintained by CDS, except through an agent who is a CDS Participant. All cash distributions in respect of Units will be made by the Fund to CDS and distributions to CDS will be forwarded by CDS to CDS Participants, and thereafter to the Unitholders. See “Distributions”.

Neither the Manager, the Trustee nor the Agents will have any liability for: (i) records maintained by CDS relating to the beneficial interests in the Units or the book-entry accounts maintained by CDS; (ii) maintaining, supervising or reviewing any records relating to such beneficial ownership interests; or (iii) any advice or representation made or given by CDS or made or given with respect to the rules and regulations of CDS or any action taken by CDS or at the direction of CDS Participants.

The ability of a beneficial owner of Units to pledge such Units or otherwise take action with respect to such owner’s interest in such Units (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

The Manager, on behalf of the Fund, has the option to terminate the book-entry only system through CDS, in which case Units in fully registered certificated form will be issued to Unitholders, as of the effective date of such termination.

UNITHOLDER MATTERS

Meetings of Unitholders and Extraordinary Resolutions

The Trustee may, at any time, convene a meeting of the Unitholders and will be required to convene a meeting on receipt of a request in writing of the Manager or Unitholders holding 10% or more of the outstanding Units, which request must specify the purpose or purposes for which such meeting is to be called. Subject to the foregoing and to any applicable stock exchange requirements, the Fund need not hold annual meetings of Unitholders. Each Unitholder is entitled to one vote for each Unit held. A quorum for ordinary meetings of Unitholders will consist of two or more Unitholders present in person or by proxy and representing not less than 10% of the Units outstanding.

Certain matters shall require the approval of Unitholders by extraordinary resolution (an “Extraordinary Resolution”). An Extraordinary Resolution shall be a resolution passed by Unitholders of not less than 66 $\frac{2}{3}$ % of the Units voting thereon at a meeting duly convened for the consideration of such matter. A quorum for any meeting convened to consider a matter requiring the approval of Unitholders by an Extraordinary Resolution shall consist of two or more Unitholders present in person or by proxy and representing not less than 10% of the Units then outstanding.

If a quorum is not present at a meeting within 30 minutes after the time fixed for the meeting, the meeting, if convened pursuant to a request of Unitholders, will be cancelled, but otherwise will be adjourned to another day, not less than 10 days or more than 21 days later, selected by the Manager and notice will be given to the Unitholders of such adjourned meeting. The Unitholders present at any adjourned meeting will constitute a quorum.

The matters which require Unitholder approval by an Extraordinary Resolution include the removal of the Manager, any issuance of Units subsequent to the initial issuance of Units (other than issuances made by way of rights offerings to existing Unitholders, private placement or public offering where the net proceeds per Unit to be received by the Fund are not less than the NAV per Unit or a distribution in Units as discussed above and in the Trust Agreement), or the continuation of the Fund beyond the Termination Date and certain matters described below under “Amendments to the Trust Agreement”.

The Manager, in respect of any Units which may be held by it from time to time, insiders of the Fund (as such expression is defined in the *Securities Act* (Ontario)), affiliates of the Manager, and any director or officer of such persons who hold Units shall not be entitled to vote on any Extraordinary Resolution to be adopted by the Unitholders.

Amendments to the Trust Agreement

Except as described below, the Trust Agreement may only be amended with the consent of Unitholders by an Extraordinary Resolution, including: changes to the fundamental investment objectives and strategy of the Fund as described under “The Fund’s Investment Guidelines – Investment Objectives” and “The Fund’s Investment Guidelines – Investment Strategy”, unless such change is required by applicable law or any regulatory authority; a change in the investment restrictions of the Fund as described under “The Fund’s Investment Guidelines – Investment Restrictions”; the right of a Unitholder to vote at any meeting; or changing the Fund from a trust to a different form of issuer. However, no amendment can be made to the Trust Agreement that would have the effect of reducing the interest in the Fund of Unitholders unless all Unitholders consent thereto. No amendment can be made to the Trust Agreement which would have the effect of reducing the fees payable to the Manager unless the Manager, in its sole discretion, consents.

Notwithstanding the foregoing, the Manager and the Trustee are entitled, without the consent of Unitholders, to make certain amendments to the Trust Agreement to make any change or correction which is of a typographical nature or is required to cure or correct a clerical omission, mistake or manifest error contained therein or which is for the purpose of amending the existing provisions or adding any provisions which are for the protection or benefit of the Unitholders or the Fund, for the purpose of curing an ambiguity in the Trust Agreement, for the purpose of supplementing any provision which may be defective or inconsistent with another provision, for the purpose of compliance with applicable law, or for the purpose of conforming the Trust Agreement with current administrative practice or curing or correcting any administrative difficulty. Such amendments may be made only if they will not materially adversely affect the interest of any Unitholder. The Manager and the Trustee may also amend the Trust Agreement without the consent of the Unitholders for the purpose of removing any conflicts or other inconsistencies which may exist between the Trust Agreement and applicable law, changing the Fund’s taxation year-end as permitted under the Tax Act or for the purpose of maintaining the status of the Fund as a “mutual fund trust” for purposes of the Tax Act. Any amendments made by the Manager and the Trustee without the consent of the Unitholders must be disclosed in the next regularly scheduled report to Unitholders.

Information and Reports to Unitholders

The Fund will furnish to Unitholders such financial statements (including interim unaudited and annual audited financial statements) and other reports as are from time to time required by applicable law to be furnished by the Manager, including prescribed forms needed for the completion of Unitholders’ tax returns under the Tax Act and equivalent provincial legislation.

The Fund will comply with all of the continuous disclosure requirements applicable to it as a reporting issuer under applicable securities laws. Prior to any meeting of Unitholders, the Fund will provide to Unitholders (along with notice of such meeting) all such information as is required by applicable law to be provided to Unitholders.

By purchasing Units, investors will be deemed to consent to the sharing of personal information collected by the CDS Participant through whom Units are purchased with the Manager, the Trustee and the Fund. The investor will be deemed to acknowledge that the information will be used by the Manager, the Trustee and their affiliates to administer and manage the Fund and the investment in Units, and that such information may be disclosed to third parties that provide administrative and other services in respect of the Fund.

TERMINATION OF THE FUND

The Fund will terminate on the Termination Date, whereupon the Forward Agreement will be settled, any non-cash assets of the Fund will be liquidated, and the net assets of the Fund will be distributed to Unitholders unless Unitholders determine to continue the Fund by a majority of the votes cast at a meeting of Unitholders called for such purpose. Immediately prior to the Termination Date, the Trustee will, to the extent possible, convert the assets of the Fund to cash and after paying or making adequate provision for all of the Fund’s liabilities, distribute the net assets of the Fund to Unitholders as soon as practicable after the Termination Date. If a meeting of Unitholders is to be held to extend the Fund, it must be held at least 30 days prior to the then scheduled Termination Date. The Manager, may, in its discretion, terminate the Fund without the approval of Unitholders if, in the opinion of the Manager after consulting with the Advisory Board, the Net Asset Value of the Fund has been reduced as the result of redemptions or otherwise such that it is no longer economically feasible

to continue the Fund and it would be in the best interests of the Unitholders to terminate the Fund. After paying outstanding liabilities, the Fund will distribute its remaining assets *pro rata* to Unitholders.

If the term of the Fund is extended beyond the Termination Date, Unitholders may redeem their Units on the Termination Date for the NAV per Unit as of that date.

DISTRIBUTIONS

Distribution Policy

The Fund will provide monthly distributions to Unitholders of record on or about the last business day of each month (such date, a “Record Date”) equal to approximately \$0.65 per annum (\$0.0542 per month, approximately 6.5% per annum yield on the original issue price of \$10.00 per Unit). Distributions are expected to consist primarily of returns of capital and may include capital gains.

Based on the expected asset allocation, the Portfolio is expected to yield approximately 7.5% per annum. After taking into account fees and expenses and including the effect of leverage, the net Portfolio yield is expected to be 5.66%. The difference between this amount and the 6.5% distribution objective is expected to reflect capital gains realized, and growth in the distributions paid, on Portfolio securities. See “The Portfolio – Security Selection”.

The Fund intends that the aggregate distributions of net income and net capital gains made in each year will be sufficient to ensure that the Fund will not be liable for income tax thereon under the Tax Act, except to the extent that any tax payable on net realized capital gains of the Fund for a year that are retained by the Fund would be recoverable by it in such year. If in any year, after such distributions, there would otherwise remain in the Fund additional net income or net realized capital gains, the Fund intends to make, on or before December 31 of that year, a special distribution of such portion of the remaining net income and net realized capital gains as is necessary to ensure that the Fund will not be liable for income tax thereon under the Tax Act. The Fund may make additional distributions provided certain conditions are met at any time.

The Fund may also, at the discretion of the Manager, make special distributions in cash or in Units at any time in addition to monthly cash distributions. To the extent that the Fund makes a distribution in Units, the number of outstanding Units of the Fund will be consolidated such that each Unitholder of the Fund will hold after the consolidation the same number of Units of the Fund as it held before the distribution of additional Units (except in the case of non-resident Unitholders, where withholding is required).

The Fund expects that the initial distribution will be payable to Unitholders of record on November 30, 2005 and, based on an anticipated closing date of October 18, 2005, is expected to be \$0.0773 per Unit. Distributions will be payable to Unitholders of record at 5:00 p.m. (Toronto time) on the Record Date. All distributions will be paid to Unitholders proportionately based on their respective holdings of Units within 15 days following the Record Date or paid in such other manner as may be agreed to by the Manager.

Each Unitholder will be provided annually with the information necessary to enable such Unitholder to complete an income tax return with respect to amounts paid or payable by the Fund in respect of its preceding taxation year. See “Canadian Federal Income Tax Considerations”.

REDEMPTION OF UNITS

Redemption on Termination of the Fund

All Units outstanding on the Termination Date will be redeemed by the Fund on such date. The redemption price payable by the Fund for a Unit on that date will be equal to the NAV per Unit determined as of the Termination Date. Notice of redemption will be given to CDS Participants holding Units on behalf of the beneficial owners thereof at least 30 days before the Termination Date.

Optional Redemptions

Units may be surrendered at any time for redemption by the Fund, subject to the Fund’s right to suspend redemptions in certain circumstances. Where Units are surrendered on or prior to the 10th day of a month, Units will be redeemed on the last business day of the month (a “Redemption Date”); where Units are surrendered after the 10th day of a

month, Units will be redeemed on the Redemption Date of the following month. For redemptions occurring on a Redemption Date other than the November Redemption Date of each year, the redemption price per Unit will be equal to the lesser of:

- (a) 95% of the Market Price. For such purposes, the “Market Price” is the weighted average trading price of the Units on the principal stock exchange on which the Units are listed (or, if the Units are not listed on any stock exchange, on the principal market on which the Units are quoted for trading) for the 10 trading days immediately preceding the applicable Redemption Date, and
- (b) 100% of the Closing Market Price of the Units on the applicable Redemption Date, minus an amount equal to the aggregate of all brokerage fees, commissions and other costs incurred by the Fund in connection with such payment, including, but not limited to, costs incurred in liquidating securities held in the Portfolio. For such purposes, the “Closing Market Price” means the closing price of the Units on the principal stock exchange on which the Units are listed (or, if the Units are not listed on any stock exchange, on the principal market on which the Units are quoted for trading) or, if there was no trade on the relevant date, the average of the last bid and the last asking prices of the Units on the principal stock exchange on which the Units are listed (or, if the Units are not listed on any stock exchange, on the principal market on which the Units are quoted for trading).

For redemptions on the November Redemption Date in each year, commencing in 2006, the redemption price will be equal to the NAV per Unit determined as of the relevant Redemption Date, minus any costs of funding the redemption including all brokerage fees, commissions and other costs incurred in liquidating the securities held in the Portfolio. The NAV per Unit will be made available to Unitholders on request and will be posted on the Manager’s website (www.cclcapitalmarkets.com). The NAV per Unit will vary depending on a number of factors, including the distributions paid on the Units, the value of the securities in the Portfolio, which will be affected by market conditions, and the distributions paid on securities held in the Portfolio. See “Risk Factors”.

Exercise of Redemption Right

Units surrendered for redemption by a Unitholder no later than the 10th day of a month will be redeemed on the Redemption Date of such month and such Unitholder will receive payment on or before the 10th business day following such Redemption Date (the “Redemption Payment Date”). Any unpaid distribution declared on or before a Redemption Date in respect of Units redeemed on such Redemption Date will be paid to the Unitholder redeeming such Units on the applicable Redemption Payment Date. A Unitholder who desires to exercise Unit redemption privileges must do so by causing a CDS Participant to deliver to CDS (at its office in the City of Toronto) on behalf of the Unitholder a written notice of the Unitholder’s intention to redeem Units, no later than 5:00 p.m. (Toronto time) on the relevant notice date. A Unitholder who desires to redeem Units should ensure that the CDS Participant is provided with notice of his or her intention to exercise his or her redemption right sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver a notice to CDS by the required time.

By causing a CDS Participant to deliver to CDS a notice of a Unitholder’s intention to redeem Units, the Unitholder shall be deemed to have irrevocably surrendered his or her Units for redemption and appointed such CDS Participant to act as his or her exclusive settlement agent with respect to the exercise of such redemption privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

Any redemption notice that CDS determines to be incomplete, not in proper form or not duly executed shall, for all purposes, be void and of no effect, and the redemption privilege to which it relates shall be considered, for all purposes, not to have been exercised thereby. A failure by a CDS Participant to exercise redemption privileges or to give effect to the settlement thereof in accordance with a Unitholder’s instructions will not give rise to any obligations or liability on the part of the Fund, the Trustee, the Manager or the Agents to the CDS Participant or the Unitholder.

Resale of Units Tendered for Redemption

The Fund will, upon closing of the Offering, enter into a recirculation agreement (the “Recirculation Agreement”) with Scotia Capital Inc. (in such capacity, the “Recirculation Agent”) whereby the Recirculation Agent will agree to use commercially reasonable efforts to find purchasers for any Units properly surrendered for redemption, provided that the holder of the Units so surrendered has not withheld consent thereto. The Fund may from time to time appoint additional dealers to act as recirculation agents for any Units surrendered for redemption. The Fund is not obligated to require the Recirculation Agent to seek such purchasers but may elect to do so. In the event that a purchaser for such Units is found in this manner, the amount to be paid to the holder of the Units on the relevant Redemption Payment Date will be an amount equal to the proceeds of the sale of the Units less any applicable commission, provided that such amount will not be less than

the applicable redemption price described above. Any Units for which the Fund requests the Recirculation Agent to find purchasers and for which purchasers are not found will be redeemed on the applicable Redemption Payment Date at a price equal to the applicable redemption price.

Suspension of Redemptions

The Manager may direct the Trustee to suspend the redemption of Units or payment of redemption proceeds: (i) for the whole or any part of a period during which normal trading is suspended on a stock exchange, options exchange or futures exchange or other market within or outside Canada on which securities are listed and traded, if those securities represent more than 50% by value of the total assets of the Portfolio; or (ii) with the prior approval of the securities regulatory authorities (if required) for any period not exceeding 120 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Fund or which impair the ability of the Trustee to determine the value of its assets. The suspension may apply to all requests for redemption received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All holders of Units making such requests shall be advised of the suspension and of their right to withdraw their request for redemption. Redemptions so suspended will be effected at a price determined on the first date that the NAV is calculated following the termination of the suspension. The suspension shall terminate on the first day on which the condition giving rise to the suspension has ceased to exist provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Fund, any declaration of suspension made by the Manager shall be conclusive.

Purchase for Cancellation

Subject to applicable law and regulatory requirements, the Fund will have a mandatory market purchase program and may, at any time and from time to time, purchase Units for cancellation at prices not exceeding the NAV per Unit on the Valuation Date immediately prior to such purchase. See “Description of Units – Units”.

VALUATION

Net Asset Value and NAV per Unit

The net asset value of the Fund (the “NAV”) on a particular date will be equal to: (i) the aggregate value of the assets of the Fund, less (ii) the aggregate value of the liabilities of the Fund, including any distributions declared and not paid that are payable to Unitholders on or before such date. The “NAV per Unit” on a particular date is obtained by dividing the NAV on such date by the number of Units then outstanding.

The Royal Trust Company has been appointed valuation agent of the Fund (in such capacity, the “Valuation Agent”) pursuant to the provisions of the Trust Agreement. The NAV per Unit will be calculated by the Valuation Agent (with assistance from the Manager in certain respects as identified below) as of 4:00 p.m. (Toronto time) on the following days (each, a “Valuation Date”): (i) each Friday during the year (or, if a Friday is not a business day, then on the business day following such Friday); (ii) each Redemption Date; and (iii) on the last day of the Fund’s fiscal year and taxation year. Such information will be provided by the Manager to Unitholders on request and will be posted on the Manager’s website (www.cclcapitalmarkets.com). The Fund has applied to the securities regulatory authorities for relief from the provisions of National Instrument 81-106 – *Investment Fund Continuous Disclosure* to permit it to calculate the NAV on a weekly basis.

The Manager will review and, if satisfactory, approve the valuation and will, from time to time, consider the appropriateness of the valuation policies adopted by the Fund, as such policies are modified from time to time in the discretion of the Manager, acting reasonably, and in the best interests of the Fund.

The total assets of the Fund consist of the aggregate value of the assets of the Common Share Portfolio and the Forward Agreement. Since the value of the Fund’s rights and obligations under the Forward Agreement is determined by reference to the value of units of Conservative Income Fund II, the Fund’s NAV is linked to the value of Conservative Income Fund II. The total assets of Conservative Income Fund II consist of the aggregate value of the Portfolio.

In determining the NAV at any time:

- (a) the value of any cash on hand, on deposit or on call, prepaid expenses, cash dividends or distributions declared and interest accrued and not yet received, shall be deemed to be the face amount thereof unless the Valuation Agent determines that any such asset is not worth the face amount thereof, in which event the

value thereof shall be deemed to be such value as the Valuation Agent determines to be the fair value thereof;

- (b) the value of any security, index futures or index options thereon which is listed on any recognized exchange shall be determined by the closing sale price at the close of business on the Valuation Date or, if there is no sale price, the average between the closing bid and the closing asked price on the day on which the NAV is being determined, all as reported by any report in common use or authorized as official by a recognized stock exchange; provided that if such stock exchange is not open for trading on that date, then on the last previous date on which such stock exchange was open for trading;
- (c) the value of any bonds, debentures, and other debt obligations shall be valued by taking the average of the bid and ask prices on a Valuation Date at such times as the Valuation Agent, in its discretion, deems appropriate. Amounts drawn under any loan facility will be valued at par. Short-term investments including notes and money market instruments shall be valued at cost plus accrued interest;
- (d) the value of any security or other asset for which a market quotation is not readily available shall be its fair market value as determined by the Valuation Agent;
- (e) the value of any security, the resale of which is restricted or limited, shall be the lesser of the value thereof based on reported quotations in common use and that percentage of the market value of securities of the same class, the trading of which is not restricted or limited by reason of any representation, undertaking or agreement or by law, equal to the percentage that the Fund's acquisition cost was of the market value of such securities at the time of acquisition; provided that a gradual taking into account of the actual value of the securities may be made where the date on which the restriction will be lifted is known;
- (f) purchased or written clearing corporation options, options on futures, over-the-counter options, debt-like securities and listed warrants shall be valued at the current market value thereof;
- (g) where a covered clearing corporation option, option on futures or over-the-counter option is written, the premium received by the Fund shall be reflected as a deferred credit which shall be valued at an amount equal to the current market value of the clearing corporation option, option on futures or over-the-counter option that would have the effect of closing the position. Any difference resulting from revaluation of such options shall be treated as an unrealized gain or loss on investment. The deferred credit shall be deducted in arriving at the NAV. The securities, if any, which are the subject of a written clearing corporation option, or over-the-counter option shall be valued at their then current market value;
- (h) the value of a futures contract, or a forward contract, including the Forward Agreement, shall be the gain or loss with respect thereto that would be realized if, at 4:00 p.m. (Toronto time), the position in the futures contract, or the forward contract, as the case may be, were to be closed out unless daily limits are in effect in which case fair value shall be based on the current market value of the underlying interest;
- (i) margin paid or deposited in respect of futures contracts and forward contracts shall be reflected as an account receivable and margin consisting of assets other than cash shall be noted as held as margin;
- (j) all securities, property and assets of the Fund valued in a foreign currency and all liabilities and obligations of the Fund payable by the Fund in foreign currency shall be converted into Canadian funds by applying the rate of exchange obtained from the best available sources to the Valuation Agent, including, but not limited to, the Valuation Agent or any of its affiliates;
- (k) all expenses or liabilities (including fees payable to the Manager) of the Fund shall be calculated on an accrual basis; and
- (l) if any security or property cannot be valued under the foregoing rules or if the foregoing rules are at any time considered by the Valuation Agent, in consultation with the Manager, to be inappropriate under the circumstances (whether because no price or yield equivalent quotations are available as above provided, or for any other reason), then notwithstanding such rules, the Valuation Agent shall make such valuation as it considers fair and reasonable.

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

Audit of Financial Statements

The annual financial statements of the Fund shall be audited by the Fund's auditors in accordance with Canadian generally accepted auditing standards. The auditors will be asked to report on the fair presentation of the annual financial statements in accordance with Canadian generally accepted accounting principles.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of McMillan Binch Mendelsohn LLP, counsel to the Fund, and Stikeman Elliott LLP, counsel to the Agents, the following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable to the acquisition, holding and disposition of Units by a Unitholder who acquires Units pursuant to this prospectus. This summary is applicable to a Unitholder who is an individual (other than a trust) and who, for the purposes of the Tax Act, is resident in Canada, deals at arm's length with the Fund and holds Units as capital property. Generally, Units will be considered to be capital property to a Unitholder provided the Unitholder does not hold the Units in the course of carrying on a business of trading or dealing in securities and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain Unitholders who might not otherwise be considered to hold their Units as capital property may, in certain circumstances, be entitled to have them treated as capital property by making an election in accordance with the Tax Act. This summary is also based on the assumptions that the Common Share Portfolio will consist solely of "Canadian securities" for the purposes of the Tax Act and that the Fund will elect in accordance with the Tax Act to have each of its Canadian securities treated as capital property. This summary is also based on the advice of the Manager and of the Agents respecting certain factual matters.

This summary is based on the current provisions of the Tax Act and the regulations thereunder, counsel's understanding of the current published administrative and assessing practices of the Canada Revenue Agency (the "CRA") and all specific proposals to amend the Tax Act and regulations thereunder publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (such proposals referred to hereafter as the "Tax Proposals"). This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, nor does it take into account other federal or any provincial, territorial or foreign income tax legislation or considerations. There can be no assurance that the Tax Proposals will be enacted in the form publicly announced or at all.

This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Units and does not describe the income tax consequences relating to the deductibility of interest on money borrowed to acquire Units. Moreover, the income and other tax consequences of acquiring, holding or disposing of Units will vary depending on an investor's particular circumstances including the province or territory in which the investor resides or carries on business. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any investor. Investors should consult their own tax advisors for advice with respect to the income tax consequences of an investment in Units, based on their particular circumstances.

Status of the Fund

This summary is based on the assumptions that the Fund will qualify at all times as a "mutual fund trust" within the meaning of the Tax Act, that the Fund will validly elect under the Tax Act to be a mutual fund trust from the date it was established. To qualify as a mutual fund trust (i) the Fund must be a Canadian resident "unit trust" for purposes of the Tax Act; (ii) the only undertaking of the Fund must be the investing of its funds in property (other than real property or interests in real property); and (iii) the Fund must comply with certain minimum requirements respecting the ownership and dispersal of Units (the "minimum distribution requirements").

An additional condition to qualify as a mutual fund trust for purposes of the Tax Act is that the Fund may not be established or maintained primarily for the benefit of non-resident persons unless, at all times, substantially all of its property consists of property other than "taxable Canadian property" within the meaning of the Tax Act. If certain Tax Proposals released on September 16, 2004 are enacted as proposed, the Fund would cease to qualify as a mutual fund trust for purposes of the Tax Act if, at any time after 2004, the fair market value of all Units held by non-residents, or partnerships that are not "Canadian partnerships" for the purpose of the Tax Act, or any combination of the foregoing, is more than 50% of the fair market value of all issued and outstanding Units unless no more than 10% (based on fair market value) of the Fund's property is at any time "taxable Canadian property" within the meaning of the Tax Act and certain other types of specified property. The Fund's investment restrictions prohibit the Fund from acquiring or holding such "taxable Canadian property" or "specified property".

If the Fund were not to qualify as a mutual fund trust at all times, the income tax considerations as described below and under “Eligibility for Investment” would in some respects be materially different.

Taxation of the Fund

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

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

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

The Tax Act provides for a special tax on designated income of certain trusts that have designated beneficiaries. This special tax does not apply to a trust for a taxation year if the trust is a mutual fund trust throughout such year. Accordingly, provided that the Fund qualifies, or is deemed to qualify, as a mutual fund trust throughout a taxation year, it will not be subject to the special tax for such taxation year.

On October 31, 2003 the Department of Finance announced a Tax Proposal relating to the deductibility of losses under the Tax Act. Under this Tax Proposal, a taxpayer will be considered to have a loss from a business or property for a taxation year only if, in that year, it is reasonable to assume that the taxpayer will realize a cumulative profit from the business or property during the time that the taxpayer has carried on, or can reasonably be expected to carry on, the business or has held, or can reasonably be expected to hold, the property. Profit, for this purpose, does not include capital gains or capital losses. If such Tax Proposal were to apply to the Fund, deductions that would otherwise reduce the Fund’s taxable income could effectively be denied, with after-tax returns to Unitholders reduced as a result.

Taxation of Unitholders

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

Provided that appropriate designations are made by the Fund, such portion of: (i) the net realized taxable capital gains of the Fund, and (ii) dividends received on shares of taxable Canadian corporations, as is paid or payable to a Unitholder will effectively retain its character and be treated as such in the hands of the Unitholder for purposes of the Tax Act. To the extent that amounts are designated as taxable dividends from taxable Canadian corporations, the normal gross-up and dividend tax credit rules will apply. Any loss of the Fund for purposes of the Tax Act cannot be allocated to, and cannot be treated as a loss of, the Unitholders.

Under the Tax Act, the Fund is permitted to deduct in computing its income for a taxation year an amount that is less than the amount of its distributions for the year. This will enable the Fund to utilize, in a taxation year, losses from prior years

without affecting the ability of the Fund to distribute its income annually. The amount distributed to a Unitholder but not deducted by the Fund will not be included in the Unitholder's income. However, the adjusted cost base of the Unitholder's Units will be reduced by such amount.

The NAV per Unit will reflect any income and gains of the Fund that have accrued at the time Units are acquired. Accordingly, a Unitholder who acquires Units may become taxable on the Unitholder's share of income and gains of the Fund that accrued before the Units were acquired notwithstanding that such amounts will have been reflected in the price paid by the Unitholder for the Units.

On the disposition or deemed disposition of a Unit, the Unitholder will realize a capital gain (or capital loss) to the extent that the Unitholder's proceeds of disposition exceed (or are less than) the aggregate of the adjusted cost base of the Unit and any reasonable costs of disposition. For the purpose of determining the adjusted cost base of Units to a Unitholder, when Units are acquired, the cost of the newly acquired Units will be averaged with the adjusted cost base of all Units owned by the Unitholder as capital property immediately before that time. A consolidation of Units following a distribution paid in the form of additional Units will not be regarded as a disposition of Units and will not affect the aggregate adjusted cost base to a Unitholder of Units.

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

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

ELIGIBILITY FOR INVESTMENT

In the opinion of McMillan Binch Mendelsohn LLP, counsel to the Fund, and Stikeman Elliott LLP, counsel to the Agents, provided that the Fund qualifies as a "mutual fund trust" for the purposes of the Tax Act, Units offered hereby will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans and registered education savings plans.

USE OF PROCEEDS

The Fund will use the proceeds from the sale of Units as follows:

	Maximum Offering	Minimum Offering
Gross proceeds to the Fund	\$175,000,000	\$50,000,000
Agents' fees	\$8,750,000	\$2,500,000
Expenses of issue	\$675,000	\$565,000
Net proceeds to the Fund	\$165,575,000	\$46,935,000

The Fund will use the net proceeds of the Offering (including any net proceeds from the exercise of the Over-Allotment Option (defined below)) to acquire the Common Share Portfolio.

PLAN OF DISTRIBUTION

Pursuant to an agreement dated as of September 29, 2005 (the "Agency Agreement") between Scotia Capital Inc., CIBC World Markets Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., TD Securities Inc., National Bank Financial Inc., HSBC Securities (Canada) Inc., Richardson Partners Financial Limited, Wellington West Capital Inc., Desjardins Securities Inc., Raymond James Ltd., Canaccord Capital Corporation and Blackmont Capital Inc. (collectively, the "Agents"), the Manager and the Fund, the Agents have agreed to offer the Units for sale, as agents of the Fund, on a best efforts basis, if, as and when issued by the Fund. The Agents will receive a fee equal to \$0.50 for each Unit sold and will be reimbursed for out-of-pocket expenses incurred by them. The Agents may form a sub-agency group including other qualified investment dealers and determine the fee payable to the members of such group, which fee will be paid by the Agents out of their fees. While the Agents have agreed to use their best efforts to sell the Units offered hereby, the Agents will not be obligated to purchase Units which are not sold.

The Fund has granted the Agents an option (the “Over-Allotment Option”), exercisable for a period of 30 days from the closing of the Offering, to offer up to 15% of the aggregate number of Units issued at the closing of the Offering on the same terms set forth above. This prospectus qualifies the distribution of the Over-Allotment Option, and the Units issuable on the exercise thereof. The Agents may exercise the Over-Allotment Option in whole or in part at any time on or before the close of business on the 30th day following the closing of this Offering. To the extent that the Over-Allotment Option is exercised, the additional Units will be offered at the offering prices hereunder and the Agents will be entitled to a fee of \$0.50 per Unit purchased.

If subscriptions for a minimum of 5,000,000 Units have not been received within 90 days following the date of issuance of a final receipt for this prospectus, this Offering may not continue without the consent of the Canadian securities regulators and those who have subscribed for Units on or before such date. Under the terms of the Agency Agreement, the Agents may, at their discretion on the basis of their assessment of the state of the financial markets and upon the occurrence of certain stated events, terminate the Agency Agreement. In the event the minimum Offering is not achieved by the Fund and the necessary consents are not obtained or if the closing of the Offering does not occur for any reason, subscription proceeds received from prospective purchasers will be returned to such purchasers promptly without interest or deduction. Subscriptions for Units will be received subject to rejection or allotment in whole or in part. The right is reserved to close the subscription books at any time without notice. Closing of the Offering will take place on October 18, 2005 or such later date as may be agreed upon by the Fund and the Agents that is on or before November 30, 2005.

The TSX has conditionally approved the listing of the Units, subject to the fulfillment of the requirements of such exchange on or before December 20, 2005, including the distribution to a minimum number of Unitholders.

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

BMO Nesbitt Burns Inc. is an Agent of the Offering and an indirect wholly-owned subsidiary of Bank of Montreal. It is anticipated that Bank of Montreal and/or one or more of its affiliates (including BMO Nesbitt Burns Inc.) will enter into financial services transactions with the Fund or Conservative Income Fund II, including but not limited to the Forward Agreement with the Fund described under “The Fund’s Investment Guidelines – Forward Agreement”; one or more Leverage Transactions with Conservative Income Fund II of the type described under “Conservative Income Fund II – Leverage Transactions”; and interest rate futures, options or other derivative transactions with Conservative Income Fund II for the purposes described under “The Portfolio – Interest Rate Management” and “Conservative Income Fund II – Use of Derivative Instruments”. Consequently, the Fund may be considered a “connected issuer” of BMO Nesbitt Burns Inc. under applicable securities legislation. These transactions will be negotiated at arm’s length between Bank of Montreal or its affiliates, on the one hand, and the Fund or Conservative Income Fund II, on the other hand, and as such will be on market terms and conditions. **Bank of Montreal and its affiliates will have priority rights under these transactions, which they may exercise without regard to the interests of Unitholders.**

CONFLICTS OF INTEREST

The management and administrative services provided by the Manager to the Fund pursuant to the Trust Agreement (and to Conservative Income Fund II pursuant to the Conservative Income Fund II Trust Agreement) are not exclusive and nothing in the Trust Agreement prevents the Manager from providing similar management services to other investment funds and clients (whether or not their investment objectives and policies are similar to those of the Fund or Conservative Income Fund II) or from engaging in other activities. Investment decisions for the Fund will be made independently of those made for other clients and independently of investments of the Manager. On occasion, however, the Manager may manage the same investment for the Fund and for one or more of its other clients. If the Fund and one or more of the other clients of the Manager are engaged in the purchase or sale of the same security, the transactions will be effected on an equitable basis.

The investment management services provided by the Investment Manager to Conservative Income Fund II under the Investment Management Agreement are not exclusive and nothing in the Investment Management Agreement prevents the Investment Manager from providing similar services for its own account or to other investment funds and other clients (whether or not their investment objectives and policies are similar to those of Conservative Income Fund II) or from

engaging in other activities. Investments in securities purchased by the Investment Manager on behalf of Conservative Income Fund II and other investment funds or trusts for which the Investment Manager provides investment management services will be allocated to Conservative Income Fund II and such other investment funds or trusts on a *pro rata* basis according to the size of the order and the applicable investment restrictions and policies of Conservative Income Fund II and the other investment funds or trusts.

The Trust Agreement and the Conservative Income Fund II Trust Agreement acknowledge that the Trustee may provide services to the Fund and Conservative Income Fund II in other capacities, provided that the terms of any such arrangements are no less favourable to the Fund or Conservative Income Fund II than those which would be obtained from parties which are at arm's length for comparable services. The Trustee may act as trustee of, and provide services to, other investment funds or trusts.

FEES AND EXPENSES

Initial Expenses

The expenses of the Offering, subject to a combined maximum of 1.5% of the gross proceeds of the Offering, will, together with the Agents' fees, be paid by the Fund and Conservative Income Fund II from the gross proceeds of the Offering. The Offering expenses include the costs of creating and organizing the Fund, the costs of printing and preparing this prospectus, legal expenses of the Fund, marketing expenses and legal and other out-of-pocket expenses incurred by the Agents, the cost of establishing Conservative Income Fund II and certain other expenses. The Offering expenses are estimated to be \$675,000 in the case of the maximum Offering and \$565,000 in the case of the minimum Offering.

Fees and Other Expenses

Pursuant to the terms of the Trust Agreement, the Manager is entitled to an annual fee of 0.75% of the NAV, plus applicable taxes. The Manager will also be paid, as an additional fee, the amount of the Service Fee (defined below), plus any applicable taxes, to be paid by the Manager to dealers. Fees payable to the Manager (but not the Service Fee portion) will accrue daily and be payable monthly in arrears based on the NAV as at the last Valuation Date of each month.

As compensation for management services rendered to Conservative Income Fund II, pursuant to the terms of the Conservative Income Fund II Trust Agreement, the Manager is entitled to an annual fee of 0.35% of the net asset value of Conservative Income Fund II, plus applicable taxes. Fees payable to the Manager will accrue daily and be payable monthly in arrears based on the net asset value of Conservative Income Fund II as at the last valuation date of each month. The Investment Manager will be remunerated by the Manager, in its capacity as manager of Conservative Income Fund II, out of the management fee.

Each of the Fund and Conservative Income Fund II will pay for all ordinary expenses incurred in connection with their operation and administration. It is expected that these expenses will include, without limitation: mailing and printing expenses for periodic reports to Unitholders and unitholders of Conservative Income Fund II, and other Unitholder and Conservative Income Fund II unitholder communications including marketing and advertising expenses; fees payable to Computershare Investor Services Inc. for acting as registrar, transfer agent and distribution agent of the Fund and performing certain financial, record-keeping, reporting and general administrative services; fees payable to the Trustee for acting as trustee of the Fund and Conservative Income Fund II; any reasonable out-of-pocket expenses incurred by the Manager or its agents in connection with their on-going obligations to the Fund and Conservative Income Fund II; any additional fees payable to the Manager for performance of extraordinary services on behalf of the Fund and Conservative Income Fund II; fees payable to the auditors and legal advisors; regulatory filing, stock exchange and licensing fees; any expenditures incurred upon the termination of the Fund and Conservative Income Fund II; and fees payable to the independent members of the Advisory Board and the advisory board of Conservative Income Fund II. Such expenses will also include expenses of any action, suit or other proceedings in which or in relation to which the Manager is entitled to indemnity by the Fund and Conservative Income Fund II. See "Management of the Fund" and "Management of Conservative Income Fund II". The aggregate annual amount of these fees and expenses is estimated to be \$95,000 for the Fund and \$65,000 for Conservative Income Fund II. The Fund and Conservative Income Fund II will also be responsible for any debt service and costs relating to leverage, fees associated with interest hedging activities and any extraordinary expenses which they may incur from time to time. Conservative Income Fund II will be responsible for commissions and other costs of portfolio transactions of Conservative Income Fund II.

The Fund will pay to the Counterparty a fee under the Forward Agreement of approximately 0.50% per annum of the net asset value of Conservative Income Fund II. Such fee includes any hedging costs incurred by the Counterparty.

Service Fee

The Manager will pay to registered dealers a servicing fee (the "Service Fee") equal to 0.40% annually of the NAV per Unit for each Unit held by clients of the registered dealer (accrued daily and paid at the end of each calendar quarter), plus any applicable taxes. The Service Fee payable to the registered dealers in respect of the quarter ending December 31, 2005, shall be pro-rated based on the fraction, the numerator of which is the number of days from and including the closing of the Offering to and including December 31, 2005, the denominator of which is equal to the number of days in that quarter.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The Manager will receive the fees described under "Fees and Expenses" for its services to the Fund and Conservative Income Fund II and will be reimbursed by the Fund and Conservative Income Fund II for all expenses incurred in connection with the operation and administration of the Fund and Conservative Income Fund II, respectively. The Manager is the promoter of the Fund.

RISK FACTORS

The following are certain considerations relating to an investment in Units which prospective investors should consider before purchasing such shares:

No Assurances on Achieving Objectives

There is no assurance that the Fund will be able to achieve its objectives, monthly distribution and capital preservation. There is no assurance that the Portfolio held by Conservative Income Fund II will earn any return, which may have an indirect impact on the value of the Fund's interest in the Forward Agreement. There is no assurance that the Fund will be able to pay distributions.

As a consequence of entering into the Forward Agreement, the Fund will forego the benefits of any increase in the value of the Common Share Portfolio in excess of the settlement price under the Forward Agreement.

Fluctuations in Net Asset Value

The value of the Portfolio and the NAV per Unit will vary according to, among other things, the net asset value of the securities held in the Portfolio and partial pre-settlement of the Forward Agreement prior to the Termination Date. Fluctuations in the market values of the securities held in the Portfolio may occur for a number of reasons beyond the control of the Manager or the Fund.

Performance of the Portfolio

The NAV per Unit will vary as the value of the securities in the Portfolio varies. The Fund has no control over the factors that affect the value of the securities in the Portfolio, including factors that affect all the debt and equity markets generally such as general economic and political conditions and fluctuations in interest rates, and factors unique to each issuer included in the Portfolio, such as changes in management, changes in strategic direction, achievement of strategic goals, mergers, acquisitions and divestitures, changes in distribution policies and other events that may affect the value of its securities.

Income Trusts

The yields on income trusts are not assured. Income trusts depend ultimately on the financial performance of the related operating company and may also be subject to general risks associated with industry, business cycles, commodity prices, interest rates and other economic factors. The market value of income trusts in which the Fund invests may materially decline if such income trusts are unable to meet their cash distribution targets in the future. Some of the income trusts in the Portfolio will have limited operating histories. There is a risk that the rules in the Tax Act may change, which could negatively affect the yields of income trust securities in the Portfolio. Unitholders of income trusts governed under the laws of certain provinces do not receive the protection of statutorily mandated limited liability, as in the case of shareholders of most Canadian corporations, and thus there is no guarantee that unitholders, such as Conservative Income Fund II, could not be made party to legal actions in connection with such income trusts.

Within the income trust sector, investments in REITs are subject to the general risks associated with real property investments. Real property investments are affected by various factors including changes in general economic conditions

(such as the availability of long-term mortgage funds) and in local conditions (such as oversupply of space or a reduction in demand for real estate in the area), the attractiveness of the properties to tenants, competition from other available space and various other factors.

Use of Leverage

One element of the investment strategy of Conservative Income Fund II is the utilization of borrowings and a variety of additional leverage strategies, including through the use of derivative instruments under the Leverage Transactions to make additional investments. The Investment Manager will employ leverage in the Portfolio to enhance returns when it considers market conditions appropriate. The obligations under the Leverage Transactions are expected to be secured by the securities held by Conservative Income Fund II. By adding additional leverage, there is a potential to enhance returns but also to involve additional risks. There can be no assurance that the leveraging strategy employed for Conservative Income Fund II will enhance returns. The use of leverage may result in a capital loss or decrease in net cash distributions to Unitholders. If the securities in the Portfolio suffer a substantial decrease in value, the leverage component will cause a decrease in the NAV in excess of that which would otherwise be experienced.

In addition, if the aggregate amount of borrowings and other leverage under Leverage Transactions exceed at any time 15% of the total assets of Conservative Income Fund II, Conservative Income Fund II will be required, on a commercially reasonable basis and as soon as is practicable, to redeem or sell securities or enter into other transactions in order to reduce the aggregate amount of borrowings and other leverage to such 15% level. If the aggregate amount of borrowings and other leverage at any time exceeds 20% of the total assets of Conservative Income Fund II, Conservative Income Fund II will be required to immediately effect transactions to reduce leverage to within 15% of total assets. Such transactions may be required to be effected at prices or on terms that may adversely affect the NAV of the Fund. If Leverage Transactions are called by the Lender or counterparty, Conservative Income Fund II may have to redeem or dispose of securities in the Portfolio to pay back debt at a time when market conditions are not favourable, resulting in a loss to Conservative Income Fund II.

The interest expense and banking fees incurred in respect of the Leverage Transactions may exceed the incremental capital gains/losses and income generated by the incremental investments in securities in the Portfolio. In addition, Conservative Income Fund II may not be able to renew the Leverage Transactions on acceptable terms. It is expected that Conservative Income Fund II will utilize leverage and may utilize the maximum amount of leverage permitted by the investment restrictions.

There is a possibility that some of the interest paid on the Leverage Transactions may not be deductible by Conservative Income Fund II for tax purposes.

Reliance on the Manager and the Investment Manager

Unitholders will be primarily dependent on the Manager and the Investment Manager.

There is no certainty that the individuals who are principally responsible for providing investment advisory and portfolio management services will continue to be employed by the Investment Manager while it provides investment advisory and portfolio management services to Conservative Income Fund II in respect of the Portfolio.

Sensitivity to Interest Rates

The market price of the Units may be affected by the level of interest rates prevailing from time to time. In addition, any decrease in the NAV resulting from an increase in interest rates may also negatively affect the market price of the Units. Unitholders will therefore be exposed to the risk that NAV per Unit or the market price of the Units may be negatively affected by interest rate fluctuations.

Use of Derivatives

Conservative Income Fund II may utilize derivatives for hedging purposes to offset fluctuations in interest rates and for purposes of adding leverage to the Portfolio. Derivative instruments will only be used in ways that are consistent with the investment restrictions of Conservative Income Fund II. Counterparty risk arising from derivative transactions will be limited to credits rated "A" or better. Such instruments may include but are not limited to futures, forwards, options, swaps and structured notes.

The use of derivative instruments involves risks different from and possibly greater than, the risks associated with investing directly in securities and other traditional investments. Risks associated with the use of derivatives include: (i)

hedging to reduce risk does not guarantee that there will not be a loss or that there will be a gain; (ii) there is no guarantee that a market will exist when Conservative Income Fund II wants to complete the derivative contract, which could prevent Conservative Income Fund II from reducing a loss or making a profit; (iii) securities exchanges may impose trading limits on options and futures contracts, and these limits may prevent Conservative Income Fund II from completing the derivative contract; (iv) Conservative Income Fund II could experience a loss if the other party to the derivative contract is unable to fulfill its obligations; (v) if Conservative Income Fund II has an open position in an option, a futures contract or a forward contract with a dealer who goes bankrupt, Conservative Income Fund II could experience a loss and, for an open futures or forward contract, a loss of margin deposits with that dealer; and (vi) if a derivative is based on a stock market index and trading is halted on a substantial number of stocks in the index or there is a change in the composition of the index, there could be an adverse effect on the derivative. In circumstances where there is an interest rate hedge employed, total return on the Portfolio may be higher with the hedge than without it when interest rates rise significantly, but total return may be lower than it otherwise would be in a stable to falling interest rate environment.

Counterparty Risks Associated with the Forward Agreement

The Fund will enter into the Forward Agreement as described under “The Fund’s Investment Guidelines – Forward Agreement” with the Counterparty pursuant to which the Fund will be required to deliver to the Counterparty, on the Termination Date, the Common Share Portfolio in exchange for a payment in an amount equal to the redemption proceeds for a corresponding number of units of Conservative Income Fund II. In entering into the Forward Agreement, the Fund will be exposed to the credit risk associated with the Counterparty. Depending on the value of the Common Share Portfolio, the Fund’s exposure to the credit risk of the Counterparty may be significant. In addition, the Counterparty may terminate the Forward Agreement in certain circumstances, in which case the Fund may not be able to meet its investment objectives. Furthermore, the possibility exists that the Counterparty or any guarantor of the obligations of the Counterparty pursuant to the Forward Agreement will default on their payment obligations under the Forward Agreement or that the proceeds of the Forward Agreement will be used to satisfy other liabilities of the Fund, which liabilities could include obligations to third party creditors if the Fund has insufficient assets, excluding the proceeds of the Forward Agreement, to pay its liabilities. Unitholders will have no recourse or rights against the assets of the Portfolio or the Counterparty in respect of the Forward Agreement or arising out of the Forward Agreement.

Securities Lending

The Fund and Conservative Income Fund II may engage in securities lending, and Conservative Income Fund II may also enter into repurchase and reverse repurchase transactions as described under “The Fund’s Investment Guidelines – Securities Lending” and “Conservative Income Fund II – Leverage Transactions”. A borrower of securities from the Fund or Conservative Income Fund II must maintain with a qualified agent collateral having a market value equal to at least 102% of the market value of the securities borrowed, and must provide the Fund or Conservative Income Fund II, as applicable, with a right to sell the collateral if the borrower defaults on its obligations under the transaction. The Fund and Conservative Income Fund II will provide to the borrower a right to sell the securities if the Fund defaults on its obligations under the transaction. The value of the collateral and the securities will be monitored daily and collateral will be adjusted appropriately on each business day. There is a risk that a borrower may default, become insolvent or otherwise be unable to complete the transaction. There are also risks of delay in recovery or loss of rights where a counterparty fails to close the transaction. In addition, a loan may be over- or under-collateralized and may create a need for the counterparty to transfer additional securities or return cash. If the Fund or Conservative Income Fund II must liquidate its security immediately, the proceeds may be less than the amount owing by the defaulting party.

Trading Price of Units

Units may trade in the market at a premium or discount to the NAV per Unit and there can be no guarantee that Units will trade at prices that reflect their net asset value.

Status of the Fund for Securities Law Purposes

The Fund is not a “mutual fund” for securities law purposes. As a result, some of the protections provided to investors in mutual funds under such laws will not be available to investors in the Units and restrictions imposed on mutual funds under Canadian securities laws, including NI 81-102, do not apply to the Fund. See “The Fund’s Investment Guidelines – Investment Restrictions”.

Potential Conflicts of Interest

The Manager and the Investment Manager, their respective directors and officers and their respective affiliates and associates may engage in the promotion, management or investment management of any other account, fund or trust which invests primarily in the securities held by the Fund or Conservative Income Fund II.

Although officers, directors and professional staff of the Manager and the Investment Manager will devote as much time to the Fund or Conservative Income Fund II as is deemed appropriate to perform their duties, the staff of the Manager and the Investment Manager may have conflicts in allocating their time and services among the Fund, Conservative Income Fund II and the other funds managed by the Manager and the Investment Manager.

Treatment of Proceeds under the Forward Agreement

In determining its income for tax purposes, the Fund will treat gains or losses on any disposition of securities in the Common Share Portfolio under the Forward Agreement as capital gains and losses. No advance income tax ruling has been requested or obtained from CRA regarding the timing or characterization of the Fund's gains or losses.

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

Possible Changes in Canadian Income Tax Laws

There can be no assurance that Canadian income tax laws will not be changed in a manner which adversely affects the distributions received by the Unitholders.

On September 8, 2005, the Department of Finance issued a paper and launched consultations on the economic and fiscal implications of income trusts and other flow-through entities, and there can be no assurance that the tax treatment of such entities will not be changed in an adverse manner.

Taxation of the Fund

On October 31, 2003 the Department of Finance announced a Tax Proposal relating to the deductibility of losses under the Tax Act. Under the Tax Proposal, a taxpayer will be considered to have a loss from a business or property for a taxation year only if, in that year, it is reasonable to assume that the taxpayer will realize a cumulative profit from the business or property during the time that the taxpayer has carried on, or can reasonably be expected to carry on, the business or has held, or can reasonably be expected to hold, the property. Profit, for this purpose, does not include capital gains or capital losses. If such Tax Proposal were to apply to the Fund, deductions that would otherwise reduce the Fund's taxable income could effectively be denied, with after-tax returns to Unitholders reduced as a result.

Statutory Rights of Unitholders

The Units share certain attributes common to both equity securities and debt instruments. However, the Units are dissimilar to debt instruments in that there is no principal amount owing to Unitholders. The Units represent a fractional interest in the assets of the Fund. Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions.

Operating History

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

MATERIAL CONTRACTS

The following contracts can reasonably be regarded as material to purchasers of Units:

- (a) the Trust Agreement described under "Description of Units";
- (b) the Forward Agreement described under "The Fund's Investment Guidelines – Investment Strategy"; and

- (c) the Agency Agreement described under “Plan of Distribution”.

Copies of the agreements referred to above after the execution thereof may be inspected during business hours at the principal office of the Fund during the course of distribution of the Units offered hereby.

PROMOTER

The Manager may be considered a promoter of the Fund within the meaning of the securities legislation of certain provinces and territories of Canada by reason of its initiative in organizing the Fund. The promoter will not receive any benefits, directly or indirectly, from the issuance of securities offered hereunder other than as described under “Fees and Expenses”.

LEGAL MATTERS

The matters referred to under “Eligibility for Investment” and “Canadian Federal Income Tax Considerations” and certain other legal matters relating to the securities offered hereby will be passed upon on behalf of the Fund and the Manager by McMillan Binch Mendelsohn LLP, and on behalf of the Agents by Stikeman Elliott LLP.

AUDITORS, TRANSFER AGENT, REGISTRAR AND CUSTODIAN

The auditors of the Fund are PricewaterhouseCoopers LLP, Chartered Accountants, Toronto, Ontario.

Pursuant to the registrar, transfer agency and distribution agency agreement to be dated as of the date of the closing of the Offering, Computershare Investor Services Inc., at its principal offices in Toronto, will be appointed the registrar, transfer agent and distribution agent for the Units.

The Royal Trust Company will act as the custodian of the assets of the Fund and Conservative Income Fund II and is responsible for paying redemptions to the distribution agent, calculating NAV, net income and net realized capital gains of the Fund and maintaining the books and records of the Fund. See “Management of the Fund – The Fund Custodian”, “Management of Conservative Income Fund II – The Custodian” and “The Trustee”.

PURCHASERS’ STATUTORY RIGHTS

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

In addition, the Manager has agreed, on behalf of the Fund, that purchasers in the Province of Québec have the right to withdraw from an agreement to purchase Units that may be exercised within two business days after receipt or deemed receipt of the non-offering prospectus of Conservative Income Fund II. See “Plan of Distribution”.

AUDITORS' CONSENT

We have read the prospectus of Connor, Clark & Lunn Conservative Income Fund II (the "Fund") dated September 29, 2005 relating to the sale and issuance of units of the Fund. We have complied with Canadian generally accepted standards for an auditors' involvement with offering documents.

We consent to the inclusion in the above-mentioned prospectus of our report to the trustee of the Fund on the statement of financial position of the Fund as at September 29, 2005. Our report is dated September 29, 2005.

Toronto, Ontario
September 29, 2005

PricewaterhouseCoopers LLP
Chartered Accountants

AUDITORS' REPORT

To the Trustee of
Connor, Clark & Lunn Conservative Income Fund II

We have audited the statement of financial position of Connor, Clark & Lunn Conservative Income Fund II (the "Fund") as at September 29, 2005. This financial statement is the responsibility of the Fund's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

In our opinion, this statement of financial position presents fairly, in all material respects, the financial position of the Fund as at September 29, 2005 in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
September 29, 2005

PricewaterhouseCoopers LLP
Chartered Accountants

**CONNOR, CLARK & LUNN CONSERVATIVE INCOME FUND II
STATEMENT OF FINANCIAL POSITION**

September 29, 2005

ASSETS

Cash	\$ 10
Total	<u>\$ 10</u>

UNITHOLDERS' EQUITY (Note 1)

Unitholders' equity (1 Unit)	<u>\$ 10</u>
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Approved by the Manager:

(Signed) W. Neil Murdoch
Chief Executive Officer

(Signed) Philip Gow
Chief Financial Officer

The accompanying notes are an integral part of this Statement of Financial Position.

NOTES TO STATEMENT OF FINANCIAL POSITION

September 29, 2005

1. Units Authorized and Outstanding

Establishment of the Fund and Authorized Units

Connor, Clark & Lunn Conservative Income Fund II (the "Fund") was established under the laws of the Province of Ontario on September 29, 2005 by a trust agreement (the "Trust Agreement") between Connor, Clark & Lunn Capital Markets Inc. (the "Manager") in its capacity as manager and The Royal Trust Company (the "Trustee") as trustee of the Fund. The Fund is authorized to issue an unlimited number of Units. On September 29, 2005 the Fund issued 1 unit for \$10 cash.

Redemption of Units

Units may be surrendered for redemption monthly, subject to certain conditions. Units surrendered for redemption by a unitholder no later than the 10th day of a month will be redeemed on the last business day of the month (a "Redemption Date"). For redemptions occurring on a Redemption Date other than in November of each year, the redemption price per Unit will generally be the lesser of (i) 95% of the prior 10 day weighted average trading price per Unit on the principal stock exchange on which the Units are listed, and (ii) the closing price per Unit on such exchange on the date on which the Units are tendered for redemption. For redemptions occurring on the November Redemption Date in each year, the redemption price will be equal to the net asset value per Unit of the Fund determined as of the relevant Redemption Date. The Manager may suspend redemptions of Units or the payment of redemption proceeds in certain circumstances. The net asset value per Unit of the Fund is determined by subtracting the total liabilities of the Fund from the total assets of the Fund and dividing by the total number of Units outstanding at that time.

2. Agency Agreement

The Fund has engaged Scotia Capital Inc., CIBC World Markets Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., TD Securities Inc., National Bank Financial Inc., HSBC Securities (Canada) Inc., Richardson Partners Financial Limited, Wellington West Capital Inc., Desjardins Securities Inc., Raymond James Ltd., Canaccord Capital Corporation and Blackmont Capital Inc. (the "Agents") to offer for sale to the public pursuant to a prospectus dated September 29, 2005 Units (the "Offering").

3. Commitments

As compensation for management and investment management services rendered to the Fund pursuant to the Trust Agreement, the Manager is entitled to receive an annual management fee payable by the Fund in an amount equal to 0.75% of the net asset value of the Fund accrued daily and payable monthly in arrears, together with the service fee (the "Service Fee") to be paid by the Manager to dealers, plus applicable taxes. The Service Fee is equal to 0.40% annually of the net asset value per Unit for Units held by clients of the dealers, and is payable quarterly.

CERTIFICATE OF THE FUND AND THE PROMOTER

Dated: September 29, 2005

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Part 6 of the *Securities Act* (New Brunswick), by Section 63 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), by Part XIV of the *Securities Act* (Newfoundland and Labrador), by Part 3 of the *Securities Act* (Yukon Territory), by the *Securities Act* (Northwest Territories) and by the *Securities Act* (Nunavut), and the respective regulations thereunder. This prospectus does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed, as required by the *Securities Act* (Québec) and the regulations thereunder.

**Connor, Clark & Lunn Capital Markets Inc.
as Manager and on behalf of Connor, Clark & Lunn Conservative Income Fund II**

(Signed) W. NEIL MURDOCH
Chief Executive Officer

(Signed) PHILIP K. GOW
Chief Financial Officer

On behalf of the Board of Directors of Connor, Clark & Lunn Capital Markets Inc.

(Signed) W. NEIL MURDOCH
Director

(Signed) PHILIP K. GOW
Director

(Signed) MICHAEL W. FREUND
Director

Connor, Clark & Lunn Capital Markets Inc., as Promoter

(Signed) W. NEIL MURDOCH
Director

CERTIFICATE OF THE AGENTS

Dated: September 29, 2005

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Section 64 of the *Securities Act* (Nova Scotia), by Part 6 of the *Securities Act* (New Brunswick), by Part XIV of the *Securities Act* (Newfoundland and Labrador), by Part II of the *Securities Act* (Prince Edward Island), by Part 3 of the *Securities Act* (Yukon Territory), by the *Securities Act* (Northwest Territories) and by the *Securities Act* (Nunavut), and the respective regulations thereunder. To the best of our knowledge, this prospectus does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed within the meaning of the *Securities Act* (Quebec) and the regulations thereunder.

SCOTIA CAPITAL INC.

By: (Signed) BRIAN D. MCCHESEY

CIBC WORLD MARKETS INC.

By: (Signed) RONALD W.A. MITCHELL

BMO NESBITT BURNS INC.

RBC DOMINION SECURITIES INC.

By: (Signed) DAVID R. THOMAS

By: (Signed) EDWARD V. JACKSON

TD SECURITIES INC.

NATIONAL BANK FINANCIAL INC.

By: (Signed) J. DAVID BEATTIE

By: (Signed) MICHAEL D. SHUH

HSBC SECURITIES (CANADA) INC.

RICHARDSON PARTNERS FINANCIAL
LIMITED

WELLINGTON WEST CAPITAL INC.

By: (Signed) DEBORAH J. SIMKINS

By: (Signed) CLANCY ETHANS

By: (Signed) KEVIN M. HOOKE

DESJARDINS SECURITIES INC.

By: (Signed) JAKE HERMAN

RAYMOND JAMES LTD.

By: (Signed) SARA MINATEL

CANACCORD CAPITAL CORPORATION

BLACKMONT CAPITAL INC.

By: (Signed) JENS J. MAYER

By: (Signed) PATRICK S. LEUNG

Connor, Clark & Lunn
CAPITAL MARKETS INC.

Connor, Clark & Lunn
INVESTMENT MANAGEMENT LTD.