

Connor, Clark & Lunn
ROC Pref Corp.
ANNUAL INFORMATION FORM
For the year ended June 30, 2008

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1 THE COMPANY

1.1 NAME AND INCORPORATION

Connor, Clark & Lunn ROC Pref Corp. (the “Company”) is a corporation incorporated under the *Canada Business Corporations Act* on January 12, 2006. The manager of the Company is Connor, Clark & Lunn Capital Markets Inc. (the “Manager”). The Manager was incorporated under the *Business Corporations Act* (Ontario) on January 15, 2001 and is wholly owned by Connor, Clark & Lunn Capital Markets Partnership. The principal place of business and registered office of the Company is #2200 – 1111 West Georgia Street, Vancouver, British Columbia V6E 4M3. The registered office of the Manager is 181 University Avenue, Suite 300, Toronto, Ontario M5H 3M7.

The Manager appointed Connor, Clark & Lunn Investment Management Ltd. (the “Investment Advisor”) as investment advisor to Credit Trust IV. The Investment Advisor is responsible for the execution of the investment strategy of Credit Trust IV, including determining and actively managing the CLN Portfolio in order to mitigate the risks associated with such portfolio. See “Management of Credit Trust IV—The Investment Advisor”.

1.2 STATUS OF THE COMPANY

While the Company is considered to be a mutual fund corporation under the securities legislation of certain provinces in Canada, the Company is not a conventional mutual fund and has obtained exemptive relief from certain requirements of National Instrument 81-102 of the Canadian Securities Administrators and National Instrument 81-106 of the Canadian Securities Administrators.

2 DESCRIPTION OF THE BUSINESS

2.1 ISSUE OF PREFERRED SHARES

On March 8, 2006, preferred shares of the Company were issued and began trading on the Toronto Stock Exchange. The Company does not continuously distribute its shares and does not intend to issue any further Preferred Shares. The offering is summarized in the following table:

<i>Issue date:</i>	March 8, 2006
<i>Maturity date:</i>	June 30, 2011
<i>Number of preferred shares issued:</i>	3,960,000
<i>Par value per preferred share:</i>	\$25.00
<i>Price preferred share:</i>	Issued at par
<i>Total raised:</i>	\$99,000,000
<i>Expenses of issue:</i>	\$3,488,950
<i>Net amount raised:</i>	\$95,511,050
<i>Trading symbol:</i>	RPQ.PR.A
<i>Rating:</i>	P-1 (low) by Standard & Poor’s
<i>Terms:</i>	Retractable at any time, cumulative, will be redeemed at par value at maturity and otherwise only under specific circumstances as described in the Prospectus.
<i>Distributions:</i>	Quarterly fixed cumulative preferential cash distributions of \$0.29375 per share, to yield 4.70% on the original issue price of \$25.00.

2.2 INVESTMENT OBJECTIVES AND STRATEGY

The Company’s investment objectives are:

- (i) **capital repayment:** to pay to holders of Preferred Shares (“Holders”), on or about June 30, 2011 (the “Termination Date”), an amount per Preferred Share equal to the original subscription price of \$25.00 per Preferred Share; and

- (ii) **distribution:** to provide Holders with quarterly fixed cumulative preferential distributions of \$0.29375 per Preferred Share (\$1.1750 per annum to yield 4.70% on the original subscription price of \$25.00 per Preferred Share). Preferred share distributions will consist primarily of returns of capital and may include capital gains dividends.

In support of these investment objectives, the Company entered into a forward purchase and sale agreement (the “Forward Agreement”) with the Bank of Nova Scotia (the “Counterparty” or “BNS”). Under the terms of the Forward Agreement, the Counterparty has agreed to deliver to the Company on or about the Termination Date, a portfolio of common shares of Canadian public companies (the “Common Share Portfolio”) in a dollar amount equal to the value of Credit Trust IV as described below, which will be principally determined by the economic return provided by a credit linked note (the “Credit Linked Note”). The Credit Linked Note was issued by Bank of Nova Scotia (“BNS”), whose long-term debt is currently rated AA- by Standard & Poor’s, a division of The McGraw Hill Companies, Inc. (“S&P”). See “Investment of the Company - Forward Agreement”. The Credit Linked Note has been assigned a rating of A- by S&P and is owned by Credit Trust IV (the “Credit trust IV”), an investment trust under the laws of Ontario. The return on the Credit Linked Note is linked to the number of defaults experienced over the term of the Credit Linked Note among companies in a portfolio (the “CLN Portfolio”) of a 127 companies (the “Reference Companies”) all of which were rated investment grade at the time the CLN was issued. In addition, from time to time, the Company may have exposure to cash, cash equivalents and Canadian Securities.

2.3 RECENT DEVELOPMENTS

By press release dated September 9, 2008, the Company announced that the US federal government had placed government sponsored entities (“GSE’s”) known as Fannie Mae and Freddie Mac under conservatorship. Under the terms and definitions of the CLN this has been deemed a credit event.

Based on the current information, the Company is most likely to experience minimal impact given the recovery rate from the two GSE’s is expected to be in the 95% to 100% range.

By press release dated September 15, 2008, the Company announced that Lehman Brothers Holdings Inc. (“Lehman”) had announced its intentions to file for bankruptcy which is expected to constitute a credit event under the CLN. The Investment Advisor had made a substitution to remove a half weighting of the exposure to Lehman and therefore the impact is expected to be half a default.

These credit events will reduce the number of defaults that can be sustained by the Company in order to pay \$25.00 per Preferred Share at maturity and continue to pay regular quarterly distributions, from approximately 5.9 to 5.4 defaults, based on an assumed 40% recovery rate. The Preferred Shares are currently rated P-2 (high) but the credit event notices will likely have an adverse impact on the rating.

2.4 THE CREDIT LINKED NOTE

The Credit Linked Note held by Credit Trust IV is a senior, direct and unconditional obligation of BNS and has been assigned a rating of A- by S&P. The Credit Linked Note was issued for \$95,511,050 in a principal amount of \$98,465,000, will mature on June 30, 2011 and pays a quarterly coupon at an annual rate of 5.7583% on the outstanding principal amount. The coupon on the Credit Linked Note is sufficient to pay expenses and enable the Company to receive sufficient amounts under the Forward Agreement to fund distributions on the Preferred Shares and pay to Holders the original subscription amount of the Preferred Shares on the Redemption Date.

During the year 147,319 preferred shares were redeemed for a total of \$2,734,725, or an average of \$18.56 per preferred share. As a result, the principal amount of the CLN is currently \$95,040,000.

The Credit Linked Note does not evidence a deposit and is not insured by the Canada Deposit Insurance Corporation or any other insurer. The Credit Linked Note ranks at the same level as deposit liabilities of BNS (except as otherwise prescribed by law). The A- rating assigned by S&P to the Credit Linked Note has been based on a number of factors, including the diversification, credit quality and expected default and recovery rates of the CLN Portfolio as well as the level of net losses that can be experienced by the CLN Portfolio without affecting the payment of interest on and the principal value of the Credit Linked Note.

2.4.1 Structure of the Credit Linked Note

The return on the CLN is linked to the number of defaults experienced over the term of the note among the 127 reference companies in the credit-linked note’s Reference Portfolio. Based on the Reference Portfolio’s credit quality, the rating agency assigns a minimum level of subordination, which reflects the degree of net losses that a portfolio must be able to absorb without impacting cash

flows to shareholders. In order to maintain its current credit rating of BBB+ credit rating, the Company's required level of subordination was 2.80% on June 30, 2008. The actual level of subordination structured into the CLN is 2.82%. If losses due to cumulative defaults, net of the amount recovered on defaults, do not exceed a total of 2.82% of the initial value of the Reference Portfolio during the term of the CLN, Credit Trust IV will receive its full coupon payments and par value on maturity. **To the extent that cumulative defaults exceeded this amount, subsequent coupon payments and the amount that would be paid to Credit Trust IV on maturity would decline. To the extent that cumulative losses due to defaults, net of recoveries, exceeded 3.57% there would be no amount paid to Credit Trust IV and the value of the Preferred Shares would decline to the level of net current assets per share, possibly zero.** Losses of 2.82% due to defaults net of recoveries (using an assumed recovery rate of 40%) would represent approximately 2.2 times the worst level of defaults experienced among a mix of credits comparable to that of the Reference Portfolio in any three year period since 1981.

The CLN features an embedded trading reserve account, which is available to absorb net losses that might be incurred when making substitutions in the reference portfolio. The trading reserve account can also be used to purchase additional subordination from BNS. The trading reserve account was initially in an amount of \$836,953, and stood at \$283,698 on June 30, 2008. The cost to the account of \$553,265 was incurred in removing fifty one reference companies with a weighted average rating of BBB+ from the Reference Portfolio and replacing them with fifty one reference companies also with a weighted average rating of BBB+ since inception. As it stood on June 30, 2008, the trading reserve account would have purchased an additional 0.02% of subordination, bringing total percentage loss that could be absorbed in the Reference Portfolio without affecting payments of interest or principal to 2.84%.

2.4.2 Credit quality of the Reference Portfolio

Risk in the CLN is a function of Reference Portfolio credit quality and time to maturity. As the CLN ages, the risk of default for companies with a given rating decreases. Balanced against that time benefit is the fact that credit ratings have historically moved lower over time. The composition of the Reference Portfolio is designed with the objective that the CLN will maintain its initial rating as these two effects act on the portfolio. Changes in the overall credit quality of the Reference Portfolio as measured by the credit ratings of its constituents may affect the rating of the CLN and of the Preferred Shares, which in turn may affect the trading price. The following table describes the Reference Portfolio's ratings characteristics on March 8, 2006 (Inception), June 30, 2006, June 30, 2007 and June 30, 2008:

Rating ⁽¹⁾	Exposure to Issuers ⁽²⁾				Rating ⁽¹⁾	Exposure to Issuers ⁽²⁾			
	March 8, 2006	June 30, 2006	June 30, 2007	June 30, 2008		March 8, 2006	June 30, 2006	June 30, 2007	June 30, 2008
AAA	6	6	6	4	BBB	9	9	11	6
AA+	0	0	0	1	BBB-	5	7	8.5	4
AA	3	2	2	8.5	BB+	0	0	2	2
AA-	9	11	16	23	BB	0	0	1	2
A+	20	17	12	10	BB-	0	0	0	1
A	35	34	29.5	24.5	B+	0	0	0	2
A-	28	30	24	28	B	0	0	0	1
BBB+	10	9	13	7	B-	0	0	0	1
					Total	125	125	125	125

⁽¹⁾ S&P's rating scale runs from AAA, indicating an extremely strong capacity to meet financial obligations, to D, indicating default. Ratings from AA to CCC may be modified by the addition of a plus or minus sign.

⁽²⁾ A fractional exposure to an issuer occurs where a Company in the portfolio has split into two or more entities.

As described above, S&P's rating anticipates deterioration in the average credit rating of the companies in the Reference Portfolio over time, reflecting the fact that credit ratings tend to migrate lower over time. Over the period, as a result of ratings changes and trading activity, the Reference Portfolio experienced 28 reference company upgrades averaging 3.8 rating categories, or notches, for a total 107 notch increase and 51.5 reference company downgrades averaging 1.5 notches per downgrade for a total 78 notch decrease, leaving the portfolio's weighted average rating, which gives exponentially greater weight to companies with ratings below investment grade, slightly deteriorated. The companies in the Reference Portfolio are listed in the Supplementary Financial Information as at June 30, 2008.

2.4.3 CLN Portfolio

The following are the names, S&P ratings, industries and countries of origin of the companies selected by the Investment Advisor, as being illustrative of the Reference Companies that are included in the CLN Portfolio (the “CLN Portfolio”).

CLN Portfolio (Reference Portfolio) as at June 30, 2008 (Unaudited):

Entity Description	SP Rating	Industry	Country
ABN Amro Bank N.V.	AA-	Financial intermediaries	Netherlands
Air Liquide S.A.	A	Chemicals & plastics	France
Akzo Nobel N.V.	A-	Chemicals & plastics	Netherlands
Allianz Aktiengesellschaft	AA	Insurance	Germany
Alltel Corporation	B+	Telecommunications	USA
Ambac Assurance Corporation	AA	Insurance	USA
American Express Company	A+	Financial intermediaries	USA
American International Group Inc.	AA-	Insurance	USA
Amkor Technology Inc	B+	Electronics/electrical	USA
AT&T Inc.	A	Telecommunications	USA
Atlantia Spa (Autostrade Spa)	A	Surface transport	Italy
Aventis	AA-	Drugs	France
Avon Products Inc	A	Cosmetics/toiletries	USA
AXA	A+	Insurance	France
Bank Of America Corp	AA	Financial intermediaries	USA
Barclays Bank Plc	AA	Financial intermediaries	Britain
Bear Stearns Companies Inc.	AA-	Brokers, Dealers & Investment houses	USA
Bellsouth Corporation	A	Telecommunications	USA
BHP Billiton Ltd.	A+	Nonferrous metals/minerals	Australia
Borgwarner Inc.	A-	Automotive	USA
Bristol-Myers Squibb Company	A+	Drugs	USA
Brookfield Asset Management	A-	Building & Development	Canada
Campbell Soup Co.	A	Food products	USA
Capital One Bank	A-	Financial intermediaries	USA
Carrefour Sa	A	Food/drug retailers	France
Centex Corporation	BB	Building & Development	USA
Centrica Plc	A	Utilities	Britain
CIT Group Inc.	A-	Financial intermediaries	USA
Citigroup Inc.	AA-	Financial intermediaries	USA
Countrywide Home Loans Inc.	BB+	Financial intermediaries	USA
Credit Agricole	AA-	Financial intermediaries	France
Credit Suisse Group	A+	Financial intermediaries	Switzerland
Daimlerchrysler Ag	A-	Automotive	Germany
Danaher Corp	A+	Industrial equipment	USA
Deutsche Bank Aktiengesellschaft	AA	Financial intermediaries	Germany
Developers Diversified Realty Corp	BBB	REITs and REOCs	USA
Dexia Credit Local	AA	Cosmetics/toiletries	Switzerland
E.On Ag	A	Utilities	Germany
Eaton Corporation	A	Industrial equipment	USA
EDF Service Nationale	AA-	Utilities	France
Encana Corporation	A-	Oil & gas	Canada
Endesa S.A.	A-	Utilities	Spain
Erac USA Finance Company	BBB	Equipment leasing	USA
Federal Home Loan Mortgage Corporation	AAA	U.S. Agency	USA
Federal National Mortgage Association	AAA	U.S. Agency	USA
Financial Security Assurance Inc	AAA	Insurance	USA
France Telecom	A-	Telecommunications	France
Gannett Co Inc	BBB+	Publishing	USA
General Electric Capital Corporation	AAA	Conglomerates	USA

CLN Portfolio (Reference Portfolio) as at June 30, 2008 (Unaudited):

Entity Description	SP Rating	Industry	Country
General Motors Acceptance Corporation	B	Automotive	USA
Groupe Auchan	A	Food/drug retailers	France
Halifax Bank Of Scotland	AA-	Financial intermediaries	Britain
Hannover Rueckversicherung Ag	AA-	Insurance	Germany
Home Depot Inc.	BBB+	Retailers	USA
HSBC Finance Corp	AA-	Financial intermediaries	Britain
Hutchison Whampoa Limited	A-	Conglomerates	Hong Kong
Iberdrola Sociedad Anonima	A-	Utilities	Spain
Idearc Inc	B+	Telecommunications	USA
ING Bank N.V.	AA	Financial intermediaries	Netherlands
International Lease Finance Corporation	A+	Equipment leasing	USA
Investor Aktiebolag	AA-	Conglomerates	Sweden
J.P. Morgan Chase & Co.	AA-	Financial intermediaries	USA
Johnson Controls Inc.	A-	Automotive	USA
Kelda Group Plc	A-	Utilities	Britain
Kimco Realty Corp	A-	REITs and REOCs	USA
Koninklijke Dsm Nv	A-	Chemicals & plastics	Netherlands
Korea Electric Power Corporation	A	Utilities	South Korea
Lehman Brothers Holdings Inc.	A	Financial intermediaries	USA
Limited Brands Inc.	BBB-	Retailers	USA
Louisiana-Pacific Corporation	BBB-	Forest products	USA
Macquarie Bank Ltd	A	Financial intermediaries	Australia
MBIA Inc.	A-	Insurance	USA
MBIA Insurance Corporation	AA	Insurance	USA
Mcclatchy Co	BB-	Publishing	USA
Meadwestvaco Corporation	BBB	Forest products	USA
Medtronic Inc.	AA-	Health care	USA
Merck & Co Inc	AA-	Drugs	USA
Merrill Lynch & Co. Inc.	A	Financial intermediaries	USA
Metlife Inc	A	Insurance	USA
MGIC Investment Corporation	BBB	Insurance	USA
Morgan Stanley	A+	Brokers, Dealers & Investment houses	USA
Muenchener Rueckversicherungs	AA-	Insurance	Germany
National Grid Transco Plc	A-	Utilities	Britain
Norbord Inc	BB	Forest products	Canada
Nucor Corporation	A+	Steel	USA
Omnicom Group Inc.	A-	Business equipment & services	USA
Peugeot Sa	BBB+	Automotive	France
Pitney Bowes Inc	A	Business equipment & services	USA
PPG Industries Inc.	A-	Chemicals & plastics	USA
Prologis	BBB+	REITs and REOCs	USA
Prudential Financial Inc.	A+	Insurance	USA
Quest Diagnostics Inc.	BBB+	Health care	USA
Radian Group Inc.	BBB	Insurance	USA
Royal & Sun Alliance Insurance Plc	A	Insurance	Britain
RWE Ag	A	Utilities	Germany
Sherwin-Williams Company	A-	Chemicals & plastics	USA
Siemens Aktiengesellschaft	AA-	Conglomerates	Germany
Societe Generale	AA-	Financial intermediaries	France
Solvay	A	Chemicals & plastics	Belgium
Southwest Airlines Co.	A-	Air transport	USA
Standard Life Assurance Company	BBB+	Insurance	Britain
Stora Enso Oyj	BBB-	Forest products	Finland

CLN Portfolio (Reference Portfolio) as at June 30, 2008 (Unaudited):

Entity Description	SP Rating	Industry	Country
Suez	A-	Utilities	France
Swiss Reinsurance Company	AA-	Insurance	Switzerland
Syngenta Ag	A	Farming/agriculture	Switzerland
Telecom Corporation Of New Zealand Ltd	A	Telecommunications	New Zealand
Teliasonera Aktiebolag	A-	Telecommunications	Sweden
Telstra Corporation Limited	A	Telecommunications	Australia
The Goldman Sachs Group Inc.	AA-	Brokers, Dealers & Investment houses	USA
The Royal Bank Of Scotland Public Limited Company	AA	Financial intermediaries	Britain
The Ryland Group Inc.	BB+	Building & Development	USA
Thomson Corporation (The)	A-	Publishing	Canada
Time Warner Inc.	BBB+	Leisure goods/activities/movies	USA
Toll Brothers Inc.	BBB-	Building & Development	USA
Tribune Company	B-	Publishing	USA
UBS Ag	AA-	Financial intermediaries	Switzerland
United Parcel Service Inc.	AA-	Surface transport	USA
UST Inc.	A	Beverage & Tobacco	USA
Verizon Communications Inc	A	Telecommunications	USA
Vodafone Group Plc	A-	Telecommunications	Germany
Volkswagen Aktiengesellschaft	A-	Automotive	Germany
Wachovia Corporation	AA-	Financial intermediaries	USA
Washington Mutual Inc	BBB	Financial intermediaries	USA
Wells Fargo & Company	AA+	Financial intermediaries	USA
Westfield Trust	A-	REITs and REOCs	Australia
XL Capital Ltd	A-	Insurance	Bermuda
Zurich Insurance Company	AA-	Insurance	Switzerland

2.4.4 Substitutions in the CLN Portfolio

The Reference Portfolio is managed by Connor, Clark & Lunn Investment Management Ltd. (the “Investment Advisor”). The Investment Advisor’s goal is to reduce the likelihood of having exposure to companies that default on their senior obligations. To that end, the Investment Advisor can add or remove companies through a substitution process executed in accordance with the terms of the CLN. If the Investment Advisor decides to remove a company that, in its judgment, has increased in risk, and to replace it with a lower risk company, there may be a net cost to the trading reserve account depending on the credit spread comparison between the companies being substituted. The trading reserve account described above is available to absorb net losses that may be incurred through these substitutions.

The Investment Advisor had made fifty one substitutions in the Reference Portfolio since inception at a net cost of \$553,265 paid from the trading reserve account as discussed previously.

2.4.5 Rating of the Credit Linked Note

The Credit Linked Note has been assigned a rating of A– and is currently rated BBB+ by S&P. S&P’s rating of the Credit Linked Note addresses the likelihood of full payment of interest and payment of the principal value thereof on the maturity date. The analysis focuses on how much credit enhancement, or subordination, is needed to achieve a given level of risk. S&P also considers the transaction’s credit risk, structure and legal analysis.

S&P’s analysis with respect to credit risk includes, among other things, an assessment of the default risk of BNS and the Reference Companies in the CLN Portfolio, a review of the Investment Advisor and of trading criteria and restrictions and a calculation of the required level of subordination.

There can be no assurance that actual defaults with respect to the Reference Companies in the CLN Portfolio to which the performance of the Credit Linked Note is linked will not exceed those assumed in S&P’s analysis in determining the credit enhancement to support the given rating. In addition, relatively few defaults by Reference Companies in the CLN Portfolio, or downgrades of the credit ratings of relatively few Reference Companies, may result in the rating on the Credit Linked Note and the

Preferred Shares being lowered.

A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by S&P.

2.4.6 *Payments on the Credit Linked Note*

The Credit Linked Note has been structured to pay interest at a rate of 5.7583%, for a total of approximately \$5.7 million per annum, payable quarterly, on the outstanding principal amount. Interest is paid on the 20th of March, June, September and December of each year.

BNS will repay the principal amount of the Credit Linked Note outstanding on June 30, 2011 subject to reduction of the principal amount due to the occurrence of defaults with respect to the Reference Companies in the CLN Portfolio net of recoveries with respect thereto (calculated on the basis of the Fixed Recovery Rate). The actual payment of interest on and the actual principal value of the Credit Linked Note will be based on, among other things, the performance of the CLN Portfolio. At any time prior to maturity, BNS may make a determination that one or more defaults with respect to a Reference Company has occurred which may result in a decrease of the principal amount of, and affect the payment of interest on, the Credit Linked Note. See “Events of Default — Defaults in the CLN Portfolio” below for a description of events which constitute a default.

2.4.7 *Events of Default*

The repayment of principal of, and payment of interest on, the Credit Linked Note may be accelerated following the occurrence of one or more of the following events of default (each an “Event of Default”): (i) a default in the payment of interest in respect of the Credit Linked Note which continues for a period of 30 days following the date on which notice thereof has been given to BNS; (ii) a default in the performance of, or a breach of any covenant, undertaking or other agreement in respect of, the Credit Linked Note by BNS and such default or breach continues for a period of 45 days following the date on which notice thereof has been given to BNS; and (iii) BNS becomes insolvent or bankrupt or if a liquidator, receiver, receiver and manager or an examiner of BNS, or any other officer with similar powers, is appointed. The amount payable upon acceleration of the Credit Linked Note following an Event of Default will be equal to the nominal amount (or face amount) of the Credit Linked Note, plus any accrued but unpaid interest up to but excluding the acceleration date, plus the amount of any additional interest under the Credit Linked Note (if any), plus the value of the Trading Reserve Account, less any reduction to the value of the Credit Linked Note as a result of cumulative losses incurred as a result of defaults in excess of 2.82% of the initial value of the CLN Portfolio.

Upon an acceleration of the Credit Linked Note following an Event of Default, or otherwise, the Company shall be entitled to redeem all of the Preferred Shares at any time for the Preferred Share Redemption Price (as hereinafter defined).

2.4.8 *Liquidity of the Credit Linked Note*

BNS has entered into an agreement (the “Note Repurchase Agreement”) with Credit Trust IV pursuant to which BNS has agreed to repurchase all or a portion of the Credit Linked Note once a month in the event that Preferred Shares are retracted at any time. Upon receipt of retraction notices with respect to the Preferred Shares, Credit Trust IV may deliver a note repurchase request to BNS setting forth the outstanding principal amount of the Credit Linked Note to be repurchased. The outstanding principal amount of the Credit Linked Note to be repurchased by BNS pursuant to the terms of the Note Repurchase Agreement must be at least \$75,000, and any amount in excess thereof must be in increments of \$5,000. BNS will determine the price for the portion of the Credit Linked Note to be repurchased, provided that such price will not be lower than the indicative price provided by BNS to Credit Trust IV at the end of the month immediately preceding the repurchase, less (a) the present value of 0.60% per annum of the outstanding principal amount of the Credit Linked Notes being repurchased, if such outstanding principal amount is less than or equal to \$5,000,000, or (b) the present value of 0.75% per annum of the outstanding principal amount of the Credit Linked Note being repurchased on such repurchase date (each calculated for the period from the date of such repurchase to the scheduled maturity date of the Credit Linked Note). The repurchase obligation of BNS under the Note Repurchase Agreement may be suspended during the occurrence and continuance of a Force Majeure Event and will resume immediately upon the termination of such event.

In addition to the liquidity provided by the Note Repurchase Agreement, based on the provisions of the Credit Linked Note, Credit Trust IV has the ability to assign and sell all or a portion of the Credit Linked Note.

The Note Repurchase Agreement and each pending repurchase of all or a portion of the Credit Linked Note thereunder will terminate upon the occurrence of any of the following events: (a) Credit Trust IV transfers the Credit Linked Note to any other person; (b) the holders of the Preferred Shares shall cease to have retraction rights in respect of the Preferred Shares or the terms of the Preferred

Shares are varied or amended without the written consent of BNS; (c) the Manager ceases to be the manager of Credit Trust IV or the Company, unless a successor is appointed, in each case, with the prior written approval of BNS, which approval shall not be unreasonably withheld; or (d) the Investment Advisor ceases to act as the investment advisor to Credit Trust IV, unless a successor is appointed with the prior written approval of BNS, which approval shall not be unreasonably withheld. A termination as a result of the event described in (a) above shall apply only in respect of the portion of the Credit Linked Note being transferred.

2.4.9 Valuation of the CLN

The CLN is valued on the 10th and last business days of each month by BNS. Factors affecting the value of the CLN include the market's assessment of overall credit quality of the Reference Portfolio, as measured by the trading price of the debt (and derivatives thereof) of companies in the portfolio, and interest rates as measured by the Canadian dollar swap rate to the date of maturity of the CLN, as well as the value of the trading reserve account. At June 30, 2008, the CLN value was \$54,097,492 down from \$94,663,131 at June 30, 2007.

2.4.10 Defaults in the CLN Portfolio

Set forth below is a summary of what constitutes a default (also referred to as a credit event) with respect to the Reference Companies in the CLN Portfolio.

Bankruptcy, with respect to a Reference Company, occurs if the Reference Company (a) is dissolved; (b) becomes insolvent or is unable to pay its debts; (c) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (d) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, which (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (ii) is not dismissed, discharged, stayed or restrained in each case within 30 calendar days of the institution or presentation thereof; (e) has a resolution passed for its winding-up or liquidation; (f) seeks or becomes subject to the appointment of a receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (g) has a secured party take possession of all or substantially all its assets or has a distress, execution or other legal process enforced against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 calendar days thereafter; or (h) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (a) to (g) (inclusive).

Failure to Pay means, after the expiration of any applicable grace period (after the satisfaction of any conditions precedent to the commencement of such grace period), the failure by a Reference Company to make, when and where due, any payments in an aggregate amount of not less than the payment requirement under one or more obligations, in accordance with the terms of such obligations at the time of such failure.

Restructuring means, with respect to one or more debt obligations of the Reference Companies, under certain circumstances specified in the terms of the Credit-Linked Note, any adverse change is made with respect to the obligation, including in respect of the amount of principal or premium payable at maturity or on the scheduled redemption date, the rate or amount of interest payable or the amount of scheduled interest accruals or the ranking in priority of payment, a postponement or other deferral of a date or dates for either the payment or accrual of interest or the payment of principal or premium or any change in the currency composition of any payment of interest or principal to any currency which is not a permitted currency, in a form that binds all holders of such obligation, and such event is not expressly provided for under the terms of such obligation in effect as of the later of the issue date of the Credit-Linked Note and the date as of which such obligation is issued or incurred.

In addition, with respect to Reference Companies that are Latin American Reference Companies and sovereign reference entities, additional credit events apply, such as obligation acceleration and repudiation/moratorium.

BNS has discretion to determine the occurrence of a default (also referred to as a credit event) in respect of a Reference Company which can, especially with respect to a credit event caused by a restructuring, involve a high degree of subjective judgment by BNS. BNS will be required to deliver to Credit Trust IV an irrevocable notice describing, in reasonable detail, the facts relevant to the determination that a default has occurred, together with an irrevocable notice that cites publicly available information confirming the occurrence of the default. Such notices may be delivered by BNS up to 14 days following the scheduled maturity date of the Credit-Linked Note.

Upon the determination by BNS of the occurrence of a default with respect to any of the Reference Companies, BNS will calculate an amount by which to reduce the par value of the CLN Portfolio. That amount will be the full par amount of the Reference Company's representation in the CLN Portfolio less a recovery amount. To calculate the recovery amount, BNS will select one or more senior,

unsecured obligations of the Reference Company and, on a valuation date identified through a process acceptable to S&P, will attempt to obtain firm quotations on the selected obligation from at least five leading dealers who are unaffiliated with one another. The recovery amount will be the highest quotation obtained on the relevant quotation amount.

Any of the following may result in only a partial redemption of the Credit Linked Note on the Redemption Date: (1) a default occurs in respect to one or more Reference Companies and in respect of which the recovery amount has not been determined prior to the scheduled maturity date of the Credit Linked Note; (2) BNS believes in good faith that a default may have occurred with respect to one or more Reference Companies on or prior to the scheduled maturity date of the Credit Linked Note; or (3) an event has occurred with respect to one or more Reference Companies on or prior to the scheduled maturity date of the Credit Linked Note which cannot be constituted a default in respect of a Reference Company because the determination that all of the necessary elements of the relevant default subsist cannot be made until the elapse of a specified time period which extends beyond the scheduled maturity date of the Credit Linked Note (a “potential default”). If any of the foregoing occurs and if such defaults or potential defaults, individually or collectively, could affect the amount returned on the maturity of the Credit Linked Note, BNS will partially redeem the Credit Linked Note on the Redemption Date on the basis that the amount then payable will be calculated as if each potential default constituted a default and assuming that there was a nil recovery in respect of the defaulting Reference Company. If, in the context of an event specified in (2) above, BNS has not, on or before the 14th day following the Redemption Date, satisfied the conditions set out in the Credit Linked Note which are necessary in order to constitute such event as a default, a further partial redemption of the Credit Linked Note will be effected. In the context of any potential default, if on or before the 125th Business Day following the Redemption Date, all of the necessary elements for determining whether such potential default has become a default subsist and, pursuant to the terms of the Credit Linked Note, it is determined that such potential default has not become a default, a further partial redemption of the Credit Linked Note will be effected. To the extent that recoveries are realized on defaulting Reference Companies after the Redemption Date, any additional amounts payable on the Credit Linked Note as a result of such recoveries, including any interest (calculated at BNS’s overnight rate) that would have been due on the recovered amount, will be for the account of Credit Trust IV and will be included in the net asset value of Credit Trust IV.

Defaults with respect to the Reference Companies will affect the maturity value of the Credit Linked Note if, as a result, aggregate reductions in the par value of the CLN Portfolio exceed 2.82% of the initial value of the CLN Portfolio.

2.5 INVESTMENTS OF THE COMPANY

2.5.1 Investment Restrictions of the Company

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

- (i) **Forward Agreement.** The Company entered into the Forward Agreement to purchase Canadian Securities as described under and in accordance with “Investments of the Company – Forward Agreement”. Except as set forth below, the Company will not invest in any other securities or assets.
- (ii) **Prohibited Investments.** The Company will not acquire an investment that is “taxable Canadian property” or other “specified property” of the Company as such terms are defined in the Income Tax Act (Canada) (the “Tax Act”) and proposals to amend subsection 132(4) of the Tax Act.
- (iii) **Permitted Investments.** The Company may invest a portion of its assets in (i) Canadian Securities and (ii) cash, cash equivalents, or other evidences of indebtedness, provided that such debt instruments must be rated a minimum of A- by S&P (or an equivalent rating from another recognized rating agency) at the time of investment.
- (iv) **Foreign Currency.** The Company invests in securities denominated in Canadian dollars only.
- (v) **Mutual Fund Status.** The Company will manage its investments and affairs to ensure that it will sustain its mutual fund corporation status for the purposes of the Tax Act.

2.5.2 Forward Agreement

On March 8, 2006, the Company entered into the Forward Agreement. The Company used the net proceeds of the Offering to pre-pay its purchase obligations under the Forward Agreement with the Counterparty. Under the terms of the Forward Agreement, the Company and the Counterparty have agreed that the Counterparty’s settlement obligations under the Forward Agreement will be

discharged by physical delivery of the Canadian Securities Portfolio by the Counterparty to the Company.

Pursuant to the terms of the Forward Agreement, the Counterparty will deliver to the Company on or about the Termination Date, the Canadian Securities Portfolio with an aggregate value related to the redemption proceeds of a corresponding number of units of Credit Trust IV. Amounts paid by Credit Trust IV to its unitholders will be funded by the proceeds received on the maturity of the Credit Linked Note held by Credit Trust IV and any cash or Cash Equivalents (as defined below) held by Credit Trust IV at such time (after satisfying its liabilities, if any).

The terms of the Forward Agreement provides that the Forward Agreement may be partially settled prior to the Termination Date at the request of the Company. The Company partially settles the Forward Agreement prior to the Termination Date in order to fund quarterly distributions as well as retractions of Preferred Shares by Holders and expenses and other liabilities of the Company. Pursuant to the terms of the Forward Agreement, the Counterparty, in connection with a requested partial settlement delivers to the Company securities of certain of the issuers in the Canadian Securities Portfolio with an aggregate value based on the partial settlement amount. The Company then sells such securities into the market in order to fund the quarterly distribution, retraction or other expense or liability of the Company.

Subject to certain restrictions, the composition of the Canadian Securities Portfolio may be varied from time to time (i) upon mutual agreement of the Company and the Counterparty; or (ii) upon the happening of certain stated events including mergers of issuers, the delisting of issuers from the TSX or in the event that their securities cease to be Canadian securities for purposes of the Tax Act. Before amending the Forward Agreement, the Company will seek confirmation from S&P that the rating assigned to the Preferred Shares will not be lowered or withdrawn. In accordance with exemptive relief expected to be obtained under National Instrument 81-102 of the Canadian Securities Administrators (“NI 81-102”), the parties have agreed that the Forward Agreement will not be terminated in the event that the Counterparty’s credit rating falls below the level of “approved credit rating” as defined in NI 81-102.

The value of the Canadian Securities Portfolio to be delivered by the Counterparty to the Company under the Forward Agreement is determined by reference to the performance of Credit Trust IV which, in turn, is subject to the performance of the Credit Linked Note. The Counterparty may hedge its exposure under the Forward Agreement to the economic performance of Credit Trust IV. 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 Company is exposed to the credit risk associated with the Counterparty in respect of the Forward Agreement.

The value of Canadian Securities to be delivered by the Counterparty under the Forward Agreement will be reduced by an amount equal to 0.30% per annum of the par value of the Credit Linked Note (which equates to an annual fee of 0.30%).

2.5.3 Exemptions

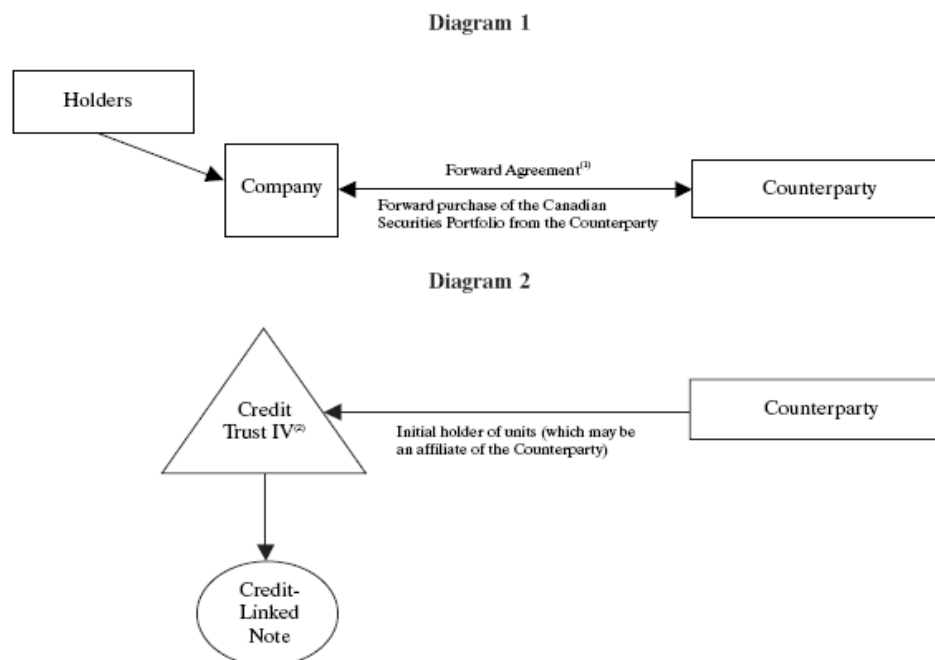
The Company obtained exemptions from the following requirements of NI 81-102:

- (a) section 2.1(1) – to permit the Company to enter into and maintain a position in the Forward Agreement for which the payment obligations of the Counterparty are determined by reference to the performance of Credit Trust IV;
- (b) subsection 2.4(1),(2) and (3) – to permit the Company’s exposure under the Forward Agreement (and any replacement or assignment of the agreement) to exceed the limitation related to investment in illiquid assets, provided that the mark-to-market exposure to the Counterparty under the Forward Agreement (and any replacement or assignment of that agreement). For a period of 60 days or more, shall not exceed 30 percent of assets of the Company;
- (c) section 2.5(2)(a) and (c) – to permit the Company to enter into and maintain a position in the Forward Agreement for which the payment obligations of the Counterparty is determined by reference to the performance of Credit Trust IV, in order to provide the Company with exposure to the Credit Linked Note;
- (d) subclause 2.7(1)(a) – to permit the Company to enter into the Forward Agreement (and any replacement or assignment of that agreement) that has a remaining term to maturity of greater than five years on the condition that the Company does not and will not enter into any other specified derivative transaction that does not satisfy the requirement of subclause 2.7(1)(a);
- (e) subsection 2.7(2) – to exempt the Company from the requirement to close out or terminate its position under the Forward Agreement prior to the scheduled Termination Date if the credit rating of the debt of the provider of the Forward Agreement falls below the level of approved credit rating, in order to provide the Company with sufficient flexibility in the event of a ratings downgrade of the debt of the Counterparty;

- (f) subsection 2.7(4) – to exempt the Company from the prescribed exposure limit under the Forward Agreement (and any replacement or assignment of that agreement), provided that the mark-to-market exposure to the Counterparty under the Forward Agreement (and any replacement or assignment of that agreement) shall not exceed, for a period of 60 days or more, 30 percent of the net assets of the Company;
- (g) section 3.3 – so that the organizational costs and expenses of the initial public offering could be borne by the Company;
- (h) section 10.3 – to permit the Company to calculate the retraction price of the Preferred Shares in accordance with their terms, following the surrender of Preferred Shares for retraction;
- (i) section 10.4 – to permit the Company to pay the retraction price of the Preferred Shares on the Retraction Payment Date;
- (j) section 12.1(1) – to relieve the Company from the requirement to file the prescribed compliance report; and
- (k) section 14.1 – to relieve the Company from the requirement related to the record date for payment of dividends or other distributions of the Company, provided that it complies with the applicable requirements of the TSX.

2.6 STRUCTURE OF THE COMPANY AND CREDIT TRUST IV

The following diagrams indicate the relationship between Holders, the Company and the Counterparty in the first diagram and between the Counterparty and Credit Trust IV at closing in the second diagram.



(1) See “Investment Guidelines of the Company— Forward Agreement”.

(2) See “Credit Trust IV”.

2.7 CREDIT TRUST IV

Credit Trust IV was established under the laws of Ontario pursuant to a trust agreement dated February 27, 2006 (the “Trust Agreement”) between the Manager and RBC Dexia Investor Services Trust, as trustee. The holder of units of Credit Trust IV is the Counterparty.

Credit Trust IV distributes all of its net income and net realized capital gains earned in each fiscal year to ensure that it is not liable for income tax under Part I of the Tax Act except to the extent any such liability may be offset by tax credits available to it in respect of foreign taxes paid by it (if any).

Units of Credit Trust IV are redeemable at the demand of its unitholders on a daily basis.

Credit Trust IV will terminate on the Termination Date if not terminated earlier in accordance with its terms. On termination, Credit Trust IV will pay to unitholders the net proceeds of the amounts received on maturity of the Credit Linked Note together with any other assets, after payment or satisfaction of all liabilities of Credit Trust IV. Any amendment to the Trust Agreement which would have an adverse effect on the ability of Credit Trust IV to perform any of its material obligations under any material agreements to which it is a party requires the prior written consent of BNS, which consent shall not be unreasonably withheld or delayed.

The Manager performs management services for Credit Trust IV and has appointed the Investment Advisor as investment advisor to Credit Trust IV to construct the CLN Portfolio and actively manage the Reference Companies in the CLN Portfolio to which the return on the Credit Linked Note is linked in order to mitigate the risks associated with such portfolio pursuant to an investment advisory agreement (the “Credit Trust IV Investment Advisory Agreement”) between Credit Trust IV and the Investment Advisor. See “Investment Advisor — The Credit Trust IV Investment Advisory Agreement”.

2.7.1 Investment Guidelines of Credit Trust IV

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

- (i) **Investments.** Credit Trust IV invests in the Credit Linked Note. Credit Trust IV may also invest a portion of its assets in cash and cash equivalents as defined below.
- (ii) **Foreign Currency.** Credit Trust IV invests in securities denominated in Canadian dollars only.
- (iii) **Foreign Issuers.** Credit Trust IV does not invest in securities of any foreign issuer if distributions to Credit Trust IV from such issuer would be subject to any foreign taxes or foreign withholding taxes that would not be recoverable by it or in respect of which it would not be entitled to receive a compensatory “gross-up” payment.

Cash Equivalents are defined in the Trust Agreement to mean cash held by or on deposit with or on behalf of the Trustee or Credit Trust IV’s custodian, or an evidence of indebtedness provided that such evidence of indebtedness: (a) has a rating of at least AAA by S&P; or (b) is issued by a Schedule I Canadian chartered bank and has a maturity date that is equal to or less than 364 days from the date of issuance thereof; and, in either case, (i) the maturity date of such evidence of indebtedness is no later than the last Business Day preceding the Termination Date, and (ii) the purchase of such evidence of indebtedness shall not result in the property of Credit Trust IV including evidence of indebtedness of more than nine different issuers at any one time.

3 DESCRIPTION OF SHARE CAPITAL

The Company is authorized to issue an unlimited number of Preferred Shares and Class A Shares. 100 Class A Shares and 3,960,000 Preferred Shares are issued and outstanding.

3.1 PREFERRED SHARES

The following is a summary of certain provisions of the Preferred Shares:

3.1.1 Distributions

Holders are entitled to receive quarterly fixed cumulative preferential cash distributions of \$0.29375 per Preferred Share on the last Business Day of March, June, September and December in each year (each, a “Distribution Payment Date”). On an annualized basis, this would represent a yield on the \$25.00 original offering price of the Preferred Shares of 4.70%.

During the year ended June 30, 2008, the Company met its targeted quarterly distribution and paid total distributions of \$4,539,625, or \$1.175 per unit, representing return of capital to holders of Preferred Shares (\$4,653,000 or \$1.175 per unit for the year ended June 30, 2007).

Preferred Share future distributions are expected to keep consisting primarily of returns of capital (which are generally not subject to tax upon receipt, but which would reduce the adjusted cost base of the Holder’s Preferred Shares), and may include capital gains

dividends. See “Canadian Federal Income Tax Considerations”.

3.1.2 Retraction

Preferred Shares may be surrendered at any time for retraction to Computershare Investor Services Inc. (“Computershare”), the Company’s registrar and transfer agent, but will be retracted only on the last day of the month (a “Valuation Date”) commencing June 30, 2006. Preferred Shares surrendered for retraction by a Holder at least five (5) Business Days prior to a Valuation Date will be retracted on such Valuation Date and the Holder will receive payment on or before the tenth Business Day following such Valuation Date (the “Retraction Payment Date”). If a Holder makes such surrender after 5:00 p.m. (Toronto time) on the fifth Business Day immediately preceding a Valuation Date, the Preferred Shares will be retracted on the Valuation Date in the following month and the Holder will receive payment for the retracted shares on the Retraction Payment Date in respect of such Valuation Date.

On a retraction, Holders will be entitled to receive a retraction price per share (“Preferred Share Retraction Price”) equal to 95% of the net asset value per Preferred Share determined as of the relevant Valuation Date less \$0.25. As this Preferred Share Retraction Price may be less than \$25.00 and will vary depending on the net asset value at the time of retraction, the S&P rating of the Preferred Shares does not extend to the amount payable on a retraction. Any declared and unpaid distributions payable to Holders of record on or before a Valuation Date in respect of Preferred Shares tendered for retraction on such Valuation Date will also be paid on the Retraction Payment Date.

For purposes of determining the Preferred Share Retraction Price, the net asset value per Preferred Share will be equal to the aggregate value of (i) the Forward Agreement, and (ii) any other assets of the Company, less liabilities of the Company and less the amount paid for the Company’s Class A Shares, divided by the number of Preferred Shares outstanding. Liabilities will include any expenses previously funded by the Manager on behalf of the Company and Deferred Management Fees (as defined below), calculated as at the Valuation Date. The value of the Forward Agreement, at any time, will primarily depend on the value of the Credit Linked Note. See “Valuation”.

Subject to the Company’s right to recirculate Preferred Shares as described below, any and all Preferred Shares which have been surrendered to the Company for retraction are deemed to be outstanding until (but not after) the close of business on the relevant Retraction Payment Date, unless not retracted thereon, in which event such Preferred Shares will remain outstanding.

The retraction right must be exercised by causing written notice to be given within the notice periods prescribed herein and in the manner described under “Book-Entry Only System”. Such surrender will be irrevocable upon the delivery of notice to CDS through a CDS Participant, except with respect to those Preferred Shares which are not retracted by the Company on the relevant Retraction Payment Date.

3.1.3 Redemption

The Preferred Shares will be redeemed by the Company on the Redemption Date at a price per Preferred Share (the “Preferred Share Redemption Price”) equal to the lesser of (i) \$25.00 plus the Residual Amount (as defined below), if any, and (ii) the amount received by the Company from the sale of Canadian Securities acquired by the Company under the Forward Agreement (which will be an amount related to the maturity value of the Credit Linked Note less any liabilities of Credit Trust IV), and on the disposition of any other assets of the Company, less liabilities of the Company and less the nominal amount paid for the Company’s Class A Shares, divided by the number of Preferred Shares outstanding. For this purpose, liabilities will not include Deferred Management Fees or any expenses previously funded by the Manager on behalf of the Company (other than expenses funded by the Manager from that portion of its annual management fee not included in the Deferred Management Fee). Notice of redemption will be given to CDS Participants holding Preferred Shares on behalf of the beneficial owners thereof at least 30 days prior to the Redemption Date.

The Company will also be entitled to redeem all of the Preferred Shares prior to the Redemption Date at the Preferred Share Redemption Price upon an acceleration of the Credit Linked Note following an Event of Default or otherwise.

The residual amount is equal to the amount per Preferred Share, if any, remaining after payment of \$25.00 per Preferred Share issued and outstanding on the Redemption Date together with any accrued and unpaid distributions, setting aside of the amount payable on the Company’s Class A Shares and payment to the Manager of any Deferred Management Fees and any fees and expenses previously funded by the Manager on behalf of the Company (the “Residual Amount”). There is no assurance that any such Residual Amount will remain.

3.1.4 Rating of the Preferred Shares

The Preferred Shares have been assigned a rating of P-1 (low) by S&P using S&P's Canadian Preferred Share Rating Scale and A—using S&P's global scale for preferred shares. S&P's ratings for preferred shares range from P-1 to P-5 on its Canadian Preferred Share Rating Scale. The A rating category is the highest of the three categories used by S&P on its global preferred share scale. S&P has indicated that its rating of the Preferred Shares addresses the ability of the Company to meet the capital repayment and distribution objectives of the Company. The rating is based on a number of factors, including the structure of the Company, Credit Trust IV and the Credit Linked Note, and an assessment of the creditworthiness of the Counterparty and BNS. See “Rating of the Credit Linked Note” for information on the rating of the Credit Linked Note.

Holder and prospective purchasers of the Preferred Shares should consult S&P with respect to the interpretation and implications of the rating. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by S&P.

On April 29, 2008 the Company announced that, S&P's Ratings Services had lowered the rating of its preferred shares from P-1 (low) to P-2 (high) and removed them from CreditWatch with negative implications, where they were placed on March 14, 2008. The move comes as the result of downgrades in the Reference Portfolio as well as the removal of Residential Capital Corp. and its replacement with Tribune Corp., which had a lower rating at the time of the replacement. There have been no defaults in the Reference Portfolio since its launch in February 2006.

3.1.5 Priority

The Preferred Shares rank in priority to the Class A Shares with respect to the payment of dividends, distributions upon a redemption, retraction or reduction of capital, and distributions upon the dissolution, liquidation or winding up of the Company. As there will only be a nominal number of Class A Shares outstanding, virtually all of the gains and all of the losses arising as a result of the Company's investments will be for the account of the Holders.

3.1.6 Voting Rights

Except as required by law or as set out below under “Shareholder Matters”, Holders of Preferred Shares will not be entitled to receive notice of, to attend or to vote at any meeting of security holders of the Company.

3.1.7 Suspension of Redemption or Retractions of Preferred Shares

The Company may suspend the retraction of Preferred Shares or payment of retraction proceeds: (i) during any period when normal trading in the Canadian Securities or Preferred Shares is suspended on the TSX; or (ii) for any period not exceeding 120 days during which the Company determines that conditions exist which render impractical the settlement of the Forward Agreement, the ability of the Company to determine the value of the assets of the Company or in such other circumstances as the Company considers appropriate, only with the prior approval of the securities regulatory authorities (if required). The suspension may apply to all requests for redemption or retraction 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 making such requests shall be advised by the Company of the suspension and that the redemption or retraction will be effected at a price determined on the first Valuation Date following the termination of the suspension. All such Holders shall have and shall be advised that they have the right to withdraw their requests for redemption or retraction. The suspension shall terminate in any event 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 Company, any declaration of suspension made by the Company shall be conclusive.

3.1.8 Book-Entry Only System

Registration of interests in and transfers of the Preferred Shares is made through the book-entry only system. All rights of an owner of Preferred Shares must be exercised through, and all payments or other property to which such owner is entitled will be made or delivered by, CDS or the CDS Participant through which the owner holds such securities. Upon the purchase of any Preferred Shares, the owner will receive only the customary confirmation. References in this Annual information Form to a holder of Preferred Shares means, unless the context otherwise requires, the owner of the beneficial interest in such securities.

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

An owner of such Preferred Shares who desires to exercise retraction privileges thereunder must do so by causing a CDS Participant to deliver to CDS (at its office in the City of Toronto) on behalf of the owner a written notice of the owner's intention to retract such shares, no later than 5:00 p.m. (Toronto time) on the relevant notice date. An owner who desires to retract Preferred Shares should ensure that the CDS Participant is provided with notice (the "Retraction Notice") of his intention to exercise his retraction privilege sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver notice to CDS by the required time. The Retraction Notice will be available from a CDS Participant or Computershare. Any expense associated with the preparation and delivery of Retraction Notices will be for the account of the owner exercising the retraction privilege.

By causing a CDS Participant to deliver to CDS a notice of the owner's intention to retract Preferred Shares, an owner shall be deemed to have irrevocably surrendered such shares for retraction and appointed such CDS Participant to act as his exclusive settlement agent with respect to the exercise of the retraction privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

Any Retraction Notice which 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 retraction 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 retraction privileges or to give effect to the settlement thereof in accordance with the owner's instructions will not give rise to any obligations or liability on the part of the Company to the CDS Participant or to the owner.

The Company has the option to terminate registration of the Preferred Shares through the book-entry only system in which case certificates for Preferred Shares in fully registered form would be issued to beneficial owners of such shares or to their nominees.

3.2 CLASS A SHARES

The holders of Class A Shares are entitled to receive dividends, if as and when declared by the board of directors of the Company. However, holders of Class A Shares are not entitled to receive any dividends on the Class A Shares at any time when there are Preferred Shares outstanding.

The holders of the Class A Shares will be entitled to one vote per share. The Class A Shares are retractable at any time. For retractions occurring at a time when any Preferred Shares are outstanding prior to the Redemption Date, the retraction price will be \$1.00 per share; for other retractions, the retraction price will be based on the net asset value of the Company. The Class A Shares are redeemable by the Company at any time for a redemption price equal to \$1.00 per share when any Preferred Shares are outstanding; for other redemptions, the redemption price will be based on the net asset value of the Company. The Class A Shares rank subsequent to the Preferred Shares with respect to dividends, distributions on retractions and redemptions, and distributions on the dissolution, liquidation or winding-up of the Company. Each Class A Share entitles the holder thereof to participate in the distribution of the remaining net assets of the Company on a dissolution, liquidation or winding-up of the Company.

A trust established for the benefit of the Holders owns all of the issued and outstanding Class A Shares of the Company.

3.3 SHAREHOLDER MATTERS

3.3.1 Meetings of Holders

Except as required by law or set out below, Holders of Preferred Shares are not entitled to receive notice of, to attend or to vote at any meeting of shareholders of the Company.

3.3.2 Acts Requiring Holder Approval

The following matters require the approval of the Holders by a two-thirds majority vote (other than items (c) and (f) which require approval by a simple majority vote) at a meeting called and held for such purpose:

- (a) a change in the investment strategy of the Company;

- (b) a change in the investment restrictions of the Company;
- (c) any change in the basis of calculating fees or other expenses that are charged to the Company which could result in an increase in charges to the Company;
- (d) a change of the manager of the Company, other than a change resulting in an affiliate of such person assuming such position;
- (e) a decrease in the frequency of calculating the net asset value per Preferred Share or of retraction privileges;
- (f) a change of the auditors of the Company;
- (g) any additional issuances of Preferred Shares other than for net proceeds equal to or greater than 100% of the NAV per Preferred Share; and
- (h) an amendment, modification or variation in the provisions or rights attaching to the Preferred Shares or Class A Shares if such change would materially adversely affect the rights attaching to the Preferred Shares.

In addition, each of the foregoing (other than items (e) and (f)) will be subject to confirmation from S&P that its rating of the Preferred Shares will not be reduced or withdrawn as a result of such change or action.

Each Preferred Share will have one vote at such a meeting. Twenty-five percent of the outstanding Preferred Shares represented in person or by proxy at the meeting will constitute a quorum. If no quorum is present, the Holders then present will constitute a quorum at an adjourned meeting.

The Company may only amend its articles with the approval of the independent directors of the Company.

3.3.3 Information and Reports to Holders

The Company will provide Holders with consolidated unaudited interim and consolidated audited annual financial statements that will include the accounts of the Company and Credit Trust IV and a consolidated statement of investments. The Company will also furnish to Holders such other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Holders' tax returns under the Tax Act and equivalent provincial legislation. Separate unaudited interim and audited annual financial statements of Credit Trust IV will be available on the Internet at www.sedar.com. Each of the Company and Credit Trust IV 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 Holders, the Company will provide Holders (along with notice of such meeting) all such information as is required by applicable law to be provided to Holders.

4 METHOD OF VALUATION

RBC Dexia Investor Services Trust (the "Valuation Agent") calculates the value of the Company's and Credit Trust IV's respective assets, twice a month (each, a "NAV Valuation Date") as set forth below.

The total assets of the Company consist of the aggregate value of the Forward Agreement together with any assets of the Company invested in cash, cash equivalents and Canadian Securities. Since the value of the Company's rights and obligations under the Forward Agreement is determined by reference to the value of the Credit Linked Note held by Credit Trust IV, the Company's net asset value ("NAV") is linked to the value of the Credit Linked Note. The value of the Credit Linked Note is determined by the Manager using a price indication provided by BNS (based on proprietary pricing models and assumptions as employed and adjusted by BNS from time to time which models may be highly subjective and, in constructing such pricing models, the Counterparty need not consider of the interests of the Company or the Holders) and such other information as the Manager deems relevant. See "The Credit Linked Note— Valuation of the CLN".

The Manager notifies the Valuation Agent of any adjustments in the holdings of either the Company or Credit Trust IV. The Manager reviews the valuation and will, from time to time, consider the appropriateness of the valuation policies adopted by the Company and followed by the Valuation Agent, as such policies are modified from time to time in the discretion of the Manager, acting reasonably, and in the best interests of Holders.

The total assets of the Company and Credit Trust IV are valued as follows:

- (i) the value of any security which is listed or traded upon a stock exchange is determined by taking the latest available sale price traded on such exchange during usual trading hours of recent date, or lacking any recent sales or any record thereof, the simple average of the latest available offer price and the latest available bid price (unless, in the opinion of the Valuation Agent, such value does not reflect the value thereof and in which case the latest offer price or bid price should be used), as at the NAV Valuation Date on which the NAV and the net asset value of Credit Trust IV are being determined, all as reported by any means in common use;
- (ii) the value of any cash on hand or on deposit, prepaid expenses, cash dividends received (or declared to Holders of record on a date before the NAV Valuation Date as of which the NAV and the net asset value of Credit Trust IV are being determined and to be received) and interest accrued and not yet received, is deemed to be the face amount thereof unless the Valuation Agent has determined that any such asset is not otherwise worth the face amount thereof, in which case the value thereof shall be deemed to be such value as the Valuation Agent determines to be the fair value thereof;
- (iii) the value of a forward contract is the gain or loss with respect thereto that would be realized if, on the NAV Valuation Date, the position in the forward contract were to be closed out in accordance with its terms;
- (iv) the value of any bonds, debentures and other debt obligations is valued by taking the average of the bid and ask prices on the NAV Valuation Date at such times as the Valuation Agent, in its discretion, deems appropriate. Short-term investments, including notes and money market instruments, is valued at cost plus accrued interest;
- (v) in the case of Credit Trust IV, the value of the Credit Linked Note is determined in the manner described under “The Credit Linked Note - Valuation of the Credit Linked Note”;
- (vi) if an investment cannot be valued under the foregoing rules or if the foregoing rules are at any time considered by the Valuation Agent to be inappropriate under the circumstances, then notwithstanding the foregoing rules, the Valuation Agent shall make such valuation as it considers fair and reasonable; and
- (vii) the value of all assets quoted or valued in terms of foreign currency, the value of all funds on deposit and contractual obligations payable in foreign currency and the value of all liabilities and contractual obligations payable in foreign currency are determined using the applicable rate of exchange current at, or as nearly as practicable to, the date on which the net asset value is computed.

Any net capital or non-capital losses available to the Company on the Redemption Date will not be treated as an asset on or subsequent to the Redemption Date, in the calculation of NAV.

The net asset value per Preferred Share is the amount obtained by dividing the NAV as of a particular date by the total number of Preferred Shares outstanding on that date (the “NAV per Preferred Share”). The Valuation Agent calculates the NAV per Preferred Share twice a month. The Manager will provide such information to Holders on request. The Manager also posts the NAV on its website (www.cclcapitalmarkets.com) twice a month.

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

4.1 AUDIT OF FINANCIAL STATEMENTS

The annual financial statements of the Company and Credit Trust IV are audited by the Company’s auditors in accordance with generally accepted auditing standards. The auditors will be asked annually to report on the fair presentation of the annual financial statements in accordance with generally accepted accounting principles. BNS will have no obligations, express or implied, to the Company or any Unitholder with regard to price indications provided with respect to the Credit Linked Note.

5 MANAGEMENT OF THE COMPANY

5.1 DIRECTORS AND OFFICERS

The name, municipality of residence, position with the Company and principal occupation of each of the directors and officers of the

Company are:

Name and Municipality	Position with the Company	Principal Occupation
W. NEIL MURDOCH * Oakville, Ontario	Director, President, Chief Director, President and Chief Executive Officer and Chairman	Director, President, Chief Director, President and Chief Executive Officer and Chairman, Connor, Clark & Lunn Capital Markets Inc.
PHILIP K. GOW Toronto, Ontario	Director	Vice-President, Connor, Clark & Lunn Capital Markets Inc.
JOHN H. G. DUSTAN * Vancouver, British Columbia	Director	President, Pacific Funds Management Ltd.
CRAIG A. SMITH* Surrey, British Columbia	Director	Corporate Director

* Members of the Audit Committee

Directors of the Company, other than employees of the Manager, receive remuneration for their services as directors. The Board of Directors' fees paid during the period ended as of June 30, 2008 were \$19,755. All of the directors and officers of the Company have held the same principal occupation for the five years preceding the date hereof, other than Messrs. Gow and Murdoch, whose previous principal occupations are described below under "Officers and Directors of the Manager".

John Dustan has worked in the financial services industry since 1974. He is a President of Pacific Funds Management Ltd. He co-founded and was the Chairman and Chief Executive Officer of Genus Capital Management Inc., (formerly Dustan Wachell Capital Management Inc.). Positions he has held include Managing Director, Sceptre Investment Counsel Limited, Partner, M.K. Wong and Associates Ltd., and Pension Consultant, Wood Gundy Ltd. Mr. Dustan serves on the Pacific Blue Cross Investment Committee, British Columbia Life & Casualty Company investment committee and the Professional Conduct Enquiry Committee of the Institute of Chartered Accountants of British Columbia. He is an adviser to the investment committee of the Alberta Public Service Pension Fund and is a member of the boards of the Vancouver Foundation, Special Olympics Canada and the Board of Governors of the Law Foundation of British Columbia.

Craig Smith has thirty years' experience in the financial services industry with a life insurance company, independent investment counselor, retail brokerage firm and major chartered bank. He was formerly Managing Director, Western Canada, of UBS Global Asset Management (Canada) Company, serving on that company's Board of Directors from 2001 to 2003. Mr. Smith holds the Chartered Financial Analyst designation.

5.2 THE MANAGER

Connor, Clark & Lunn Capital Markets Inc. performs management services for the Company pursuant to a management agreement (the "Management Agreement") dated March 8, 2006. The Manager is entitled to receive fees as compensation for management services rendered to the Company. See "Fees and Expenses".

As of June 30, 2008 the Manager managed Connor, Clark & Lunn PRINTS Trust, ROC Pref Corp., ROC Pref II Corp., ROC Pref III Corp., Connor, Clark & Lunn ROC Pref Corp., Connor, Clark & Lunn Conservative Income Fund, Connor, Clark & Lunn Real Return Income Fund, Connor, Clark & Lunn Conservative Income Fund II, SNP Health Split Corp, Connor, Clark & Lunn Global Financials Fund II, CANADIAN Financials and Utilities Split Corp, Focused Global Trends Fund, Connor, Clark & Lunn 2007 Flow-Through Limited Partnership and Connor, Clark & Lunn 2008 Flow-Through Limited Partnership.

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., Connor, Clark & Lunn Infrastructure, Baker Gilmore & Associates Inc., PCJ Investment Counsel Ltd., Scheer Rowlett & Associates Investment Management Ltd., New Star Canada Inc., Banyan

Capital Partners Management Partnership and Global Alpha Capital Management Ltd. (collectively, the “CC&L Group”). The CC&L Group offers professional management of financial assets for pension plan sponsors, capital accumulation plans, corporations, foundations, mutual funds and individual investors.

5.2.1 Duties and Services to be provided by the Manager

The Manager’s duties include: maintaining accounting records for the Company; authorizing the payment of operating expenses incurred on behalf of the Company; preparing financial statements, income tax returns and financial and accounting information as required by the Company; ensuring that Holders are provided with financial statements and other reports as are required from time to time by applicable law; ensuring that the Company complies with regulatory requirements, including its continuous disclosure requirements under applicable securities laws; preparing the Company’s reports to Holders and to the Canadian securities regulators; providing the custodian with information and reports necessary for the custodian to fulfill its fiduciary responsibilities; administering the retraction and redemption of Preferred Shares; administering the Forward Agreement including partial or early settlement thereof; arranging for any payment required on or about the Redemption Date; dealing and communicating with Holders; and negotiating contracts with third party providers of services, including, but not limited to, custodians, transfer agents, auditors and printers.

The Manager monitors the Company’s investment strategy to ensure compliance with the Investment Guidelines. The Manager reports to the independent directors of the Company (the “Independent Committee”) on a quarterly basis with respect to the operation and performance of the Company.

The Manager is required, under the Management Agreement, to notify the Independent Committee in writing of any conflict of interest or potential conflict of interest concerning the Manager or the Company (other than any such conflict of interest or potential conflict of interest relating to matters with respect to which the approval of Holders is required) and to consult with the Independent Committee in respect of any such conflict of interest or potential conflict of interest.

In the event of a dispute between the Independent Committee and the Manager with respect to a conflict of interest or potential conflict of interest, upon written direction of the Independent Committee, the Manager will call a meeting of Holders to consider the conflict of interest or potential conflict of interest.

A report of the Independent Committee, which summarizes special recommendations or reports made, if any, by the Independent Committee will be included in each of the annual reports provided to Holders.

The Company entered into the custodial agreement and the registrar, transfer agency and distribution agency agreement, all as referred to under “Auditors, Valuation Agent, Transfer Agent, Registrar and Custodian”. See “Material Contracts”. Such agreements do not in any way release the Manager from compliance with its obligations to the Company under the Management Agreement. The Company may terminate each of the foregoing agreements upon notice.

5.2.2 Accounting and Reporting

The Company’s has elected the last day of June in each year as fiscal year end. The Manager ensures that the Company complies with all applicable reporting and administrative requirements.

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

5.2.3 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:

Name and Municipality	Position with the Manager	Principal Occupation
W. Neil Murdoch Oakville, Ontario	Director, President and Chief Executive Officer	Director, President and Chief Executive Officer, Connor, Clark & Lunn Capital Markets Inc.
Philip K. Gow Toronto, Ontario	Vice-President	Vice-President, Connor, Clark & Lunn Capital Markets Inc.
Michael W. Freund Toronto, Ontario	Director and Chairman	Managing Partner, Connor, Clark & Lunn Financial Group
Darren N. Cabral Toronto, Ontario	Vice-President	Vice-President, 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 has been with Connor, Clark & Lunn Capital Markets Inc. since the company started in 2001. Philip oversees the investment management function with respect to derivatives, including options and forwards. Prior to joining the firm he was the managing director of Brenton Reef Capital Inc. He has also worked as an investment manager for Interquest International in London, England.

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.

Darren N. Cabral: CFA; BA (Hons.), York University; MBA, Schulich School of Business, York University. Mr. Cabral joined Connor, Clark & Lunn Capital Markets Inc. in May 2007. Prior thereto, Mr. Cabral held various positions with affiliates of Middlefield Group Limited from September 2001 to April 2007, including Executive Director of Research at Middlefield Capital Corporation and Managing Director of Middlefield International Limited.

5.2.4 Management Agreement

Pursuant to the Management Agreement, the Manager shall exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of Holders, and in connection therewith, shall exercise the degree of care, diligence and skill that a reasonably prudent manager would exercise in similar circumstances.

The Manager may resign as manager of the Company upon 60 days' notice to the Holders and the Company or upon such lesser notice period as the Company may accept. If the Manager resigns it may appoint its successor but, unless its successor is an affiliate of the Manager, its successor must be approved by Holders. If the Manager is in material default of its obligations under the Management Agreement and such default has not been cured within 20 Business Days after notice of same has been given to the Manager, the Company shall give notice thereof to Holders and the Holders may remove the Manager and appoint a successor manager of the Company.

The Manager is entitled to fees for its services under the Management Agreement as described under "Fees and Expenses" and is reimbursed for all reasonable costs and expenses incurred by the Manager on behalf of the Company. In addition, the Manager and each of its directors, officers, employees and agents will be indemnified by the Company for all liabilities, costs and expenses 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 as manager, except those resulting from the Manager's willful misconduct, bad faith or negligence or willful disregard by the Manager of the Manager's duties or standard of care, diligence and skill set forth above or a material breach or default of the Manager's obligations under the Management Agreement.

5.2.5 Conflict of Interest — Manager

The services of the Manager and its officers and directors are not exclusive to the Company. The Manager or any of its affiliates and associates may, at any time, engage in the promotion, management or investment management of any other entity which invests primarily in the same securities as comprise the Canadian Securities Portfolio, and provide similar services to other investment funds and other clients and engage in other activities. Investment decisions for the Company are made independently of those made for other clients and independently of investments of the Manager. On occasion, however, the Manager may make the same investment for the Company and for one or more of its other clients. If the Company 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.

5.3 INDEPENDENT REVIEW COMMITTEE

National Instrument 81-107 Independent Review Committee for Investment Funds (“NI 81-107”) which came into force on November 1, 2006 requires all publicly offered investment funds, such as the Partnership, to establish an IRC to whom the Manager must refer all conflict of interest matters for review or approval. NI 81-107 imposes obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters, maintain records in respect of these matters and provide assistance to the IRC in carrying out its functions. The IRC must be comprised of a minimum of three independent members and is subject to requirements to conduct regular assessments and provide reports to the Manager and to Limited Partners in respect of its functions. The initial members of the IRC are Fred Lazar, Frank Santangeli and Joseph Wright. The IRC acts as a review committee for a number of investment funds managed by the Manager.

The principal occupations and biographies of the IRC members are set out below.

Fred Lazar is a Professor of Economics at York University’s Schulich School of Business. In addition to a distinguished academic career, Mr. Lazar has served as a senior advisor to the governments of Canada and Ontario and to a number of national and international companies.

Frank Santangeli has worked in the financial services industry since 1960. Positions he has held include Vice-President of Sunlife Canada, President and Chief Executive Officer of Finsco Investment Management Corporation, and Vice President of Imasco Financial Corporation. He has also served as Chairman of The Investment Funds Institute of Canada.

Joseph Wright currently serves on the board of directors of several public companies and private organizations, including Loblaw Companies Limited and BFI Canada Income Fund. His former positions include the Chief Executive Officer of Swiss Bank Corporation (Canada) and Vice-Chairman and Director of Burns Fry Limited.

6 MANAGEMENT OF CREDIT TRUST IV

6.1 THE MANAGER

Connor, Clark & Lunn Capital Markets Inc. performs management services for Credit Trust IV pursuant to the Trust Agreement. The Manager is entitled to receive fees as compensation for management services rendered to Credit Trust IV. See “Fees and Expenses”. The Manager is responsible for payment of the investment management fees of the Investment Advisor related to Credit Trust IV.

6.1.1 Duties and Services to be provided by the Manager

The Manager has exclusive authority to manage the operations and affairs of Credit Trust IV, to make all decisions regarding the business of Credit Trust IV and to bind Credit Trust IV. 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 Credit Trust IV to do so.

6.1.2 Credit Trust IV Management

The Manager will continue as manager until terminated in accordance with the terms of the Trust Agreement. The terms of its appointment will be the same as the Management Agreement. See “Management of the Company — Management Agreement”.

6.1.3 Advisory Board

Credit Trust IV established an advisory board (the “Advisory Board”) currently consisting of at least two members appointed by the Manager each of whom is independent of the Manager, the Investment Advisor, 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 an Advisory Board member’s judgment. The Advisory Board provides independent advice to the Manager in order to assist the Manager in performing its services under the Trust Agreement. The Trust Agreement provides that the members of the Advisory Board will act honestly and in good faith in the best interests of Credit Trust IV and its unitholders 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 reports to the Advisory Board on the operation and performance of Credit Trust IV on a quarterly basis, including with respect to compliance with the investment objectives, investment strategies and investment restrictions of Credit Trust IV and material contracts of Credit Trust IV, as amended from time to time.

The Manager is required, under the Trust Agreement, to notify each member of the Advisory Board in writing of any conflict of interest, potential conflict of interest or related party transaction concerning the Manager or Credit Trust IV, including those with respect to the Investment Advisor of which the Manager is aware (other than any such conflict of interest, potential conflict of interest or related party transaction relating to matters with respect to which the approval of unitholders of Credit Trust IV is required under the Trust Agreement) and to consult with the Advisory Board in respect of any such conflict of interest, potential conflict of interest or related party transaction.

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 of Credit Trust IV to consider the conflict of interest, potential conflict of interest or related party transaction.

Credit Trust IV’s annual report to unitholders will include a report by the Advisory Board summarizing special recommendations, if any, made by the Advisory Board, including recommendations made and not followed by the Manager, and any other matter that the Advisory Board determines to be appropriate in the circumstances.

All fees and expenses of the Advisory Board are paid by Credit Trust IV, and the regular fees and expenses of the Advisory Board are included in the on-going fees and expenses. See “Fees and Expenses — On-Going Expenses”. The Board of Advisory fees paid during the year ended as of June 30, 2008 were \$10,332. In addition, the Advisory Board has the authority to retain, at the expense of Credit Trust IV, independent counsel or other advisors if Credit Trust IV deems it appropriate to do so.

The members of the Advisory Board are indemnified by Credit Trust IV, except in cases of willful misconduct, bad faith, negligence or breach of their standard of care. The Advisory Board members will not be responsible for the investments made by Credit Trust IV, or for the performance of Credit Trust IV. 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 are John Dustan and Craig Smith, both of whom are independent of the Manager. The principal occupations of Messrs. Dustan and Smith are described above under “Management of the Company — Directors and Officers of the Company”.

6.1.4 Conflict of Interest — Manager

The services of the Manager and its officers and directors are not exclusive to Credit Trust IV. The Manager or any of its affiliates and associates may, at any time, engage in the promotion, management or investment management of any other entity which invests primarily in the same securities as those held by Credit Trust IV, and provide similar services to other investment funds and other clients and engage in other activities. Investment decisions for Credit Trust IV are 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 Credit Trust IV and for one or more of its other clients. If Credit Trust IV and one or more of the other clients of the Manager are engaged in the purchase or sale of the same security, the transactions are effected on an equitable basis.

6.2 THE INVESTMENT ADVISOR

The Investment Advisor was established in March 1982 and is an affiliate of the Manager. The principal office of the Investment Advisor is located at 2200 - 1111 West Georgia Street, Vancouver, British Columbia V6E 4M3.

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

<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 Clark & Lunn Investment Management Ltd.
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
KATHLEEN A. LEAVENS Vancouver, British Columbia	Compliance Officer	Compliance Officer 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. 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. 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 Jay Menning, Simon McNair and David George..

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 17 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.

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.

6.2.1 Services to be provided by the Investment Advisor

Decisions as to the active management of, and the evaluation of risks associated with, the CLN Portfolio and the Credit Linked Note held by Credit Trust IV are made by the Investment Advisor in accordance with and subject to the Credit Trust IV Investment Advisory Agreement and the investment restrictions applicable to Credit Trust IV.

The Manager is responsible for ensuring that the provisions of the Credit Trust IV Investment Advisory Agreement are consistent with the investment guidelines and restrictions relating to Credit Trust IV and that such investment guidelines and restrictions comply with applicable Canadian federal and provincial laws. The Manager is also responsible for analyzing all provisions of applicable Canadian federal and provincial laws and interpretation of such laws (and any changes thereto) referred to in the investment guidelines and restrictions relating to Credit Trust IV.

6.2.2 The Investment Advisor's Approach to Selecting the CLN Portfolio

The Investment Advisor employs a number of screening techniques to monitor the CLN Portfolio with the objective of minimizing the expected default rate within the context of providing the yield target necessary to pay the fixed distributions on the Preferred Shares. The Investment Advisor considers such factors as:

- diversification by name, industry, country and region, taking into consideration such factors as related entities, parent/subsidiary relationships and guarantees;
- a statistical assessment of the expected default rate of the Reference Companies in the CLN Portfolio to ensure they meet the objectives of Credit Trust IV; and
- credit analysis from a quantitative and qualitative perspective, including a review of third party reports from rating agencies and others.

With the benefit of these screening techniques, the Investment Advisor monitors the CLN Portfolio so as to minimize the probability of defaults. A separate qualitative credit analysis is done by the Investment Advisor with the objective of identifying any unique risks associated with individual businesses. Based on this qualitative analysis a number of names from the model portfolio may be eliminated or replaced in the CLN Portfolio. The Investment Manager has made one substitution in the Reference Portfolio since inception.

6.2.3 The Credit Trust IV Investment Advisory Agreement

Under the Credit Trust IV Investment Advisory Agreement, the Investment Advisor is required to act at all times on a basis which is fair and reasonable to Credit Trust IV, to act honestly and in good faith with a view to the best interests of Credit Trust IV 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 Credit Trust IV Investment Advisory Agreement provides that the Investment Advisor shall not be liable in any way for any default, failure or defect in the Credit Linked Note or for any loss or diminution in the value of such note or other loss or damage suffered by any such person or for any errors of judgment, acts or omissions if it has satisfied the duties and standard of care, diligence and skill set forth above. The Investment Advisor will, however, incur liability in cases of willful misconduct, bad faith or negligence or breach of its standard of care set forth above.

The Credit Trust IV Investment Advisory Agreement will continue in effect unless earlier terminated in accordance with the terms

thereof. If the Manager is terminated, the Credit Trust IV Investment Advisory Agreement will terminate at such time. The Manager may terminate the Credit Trust IV Investment Advisory Agreement if the Investment Advisor 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 Advisor by the Manager. Except as described above, the Investment Advisor cannot be terminated as investment manager of Credit Trust IV.

The Investment Advisor may terminate the Credit Trust IV Investment Advisory Agreement upon 20 Business Days' notice in the event that Credit Trust IV 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 Credit Trust IV, or in the event that there is a material change in the investment guidelines of Credit Trust IV.

If the Credit Trust IV Investment Advisory Agreement is terminated, the Manager will promptly appoint a successor investment advisor to carry out the activities of the Investment Advisor until a meeting of Unitholders is held to confirm such appointment.

Any amendment to the Credit Trust IV Investment Advisory Agreement which would have an adverse effect on the ability of Credit Trust IV to perform any of its material obligations under any material agreements to which it is a party requires the prior written consent of BNS, which consent shall not be unreasonably withheld or delayed.

The Manager, in its capacity as manager of Credit Trust IV, is responsible for the payment of the fees of the Investment Advisor out of its fees.

6.2.4 Conflict of Interest — Investment Advisor

The services of the Investment Advisor and its officers and directors are not exclusive to Credit Trust IV or the Manager. The Investment Advisor or any of its affiliates and associates may, at any time, engage in the promotion, management or investment management of any other entity which invests primarily in the same securities as those held by Credit Trust IV, and provide similar services to other investment funds and other clients and engage in other activities. Investment decisions for Credit Trust IV are made independently of those made for other clients and independently of investments of the Investment Advisor. On occasion, however, the Investment Advisor may make the same investment for Credit Trust IV and for one or more of its other clients. If Credit Trust IV and one or more of the other clients of the Investment Advisor are engaged in the purchase or sale of the same security, the transactions will be effected on an equitable basis.

7 PORTFOLIO TRANSACTIONS AND BROKERAGE

The Manager is responsible for selecting members of securities exchanges, brokers and investment dealers for the execution of transactions in respect of the Company's investments and, when applicable, the negotiation of commissions in connection therewith. The Company is responsible for paying those commissions.

8 CUSTODIAN

Pursuant to a custodian agreement (the "Custodian Agreement"), the Company has retained RBC Dexia Investor Services ("the Custodian") to act as custodian of the assets of the Company. The principal office of the custodian is located at The Royal Trust Tower, 12th Floor, P.O.Box 7500, Station "A", 77 King Street West, Toronto, Ontario M5W 1P9.

The Custodian is also responsible for certain aspects of the Company's day-to-day operations. In consideration for these services, the Company pays a fee to the Custodian.

9 AUDITORS

The auditors of the Company are PricewaterhouseCoopers LLP. The principal office of the auditor's is located at The Royal Trust Tower, Suite 3000, 77 King Street West, Toronto, Ontario M5K 1G8.

10 REGISTRAR, TRANSFER AGENT AND DISTRIBUTION AGENT

The registrar, transfer agent and distribution agent is Computershare Investor Services Inc. The principal office of the registrar and the place where the securities register for the Preferred Shares is kept is located at 8th Floor, 100 University Avenue, Toronto, Ontario M5J 2Y1.

11 FEES AND EXPENSES

11.1 INITIAL FEES AND EXPENSES

The expenses of the initial public offering of the Preferred Shares (the “Offering”) (including the costs of creating and organizing the Company, the costs of printing and preparing the prospectus, legal expenses, marketing and advertising expenses and other reasonable out-of-pocket expenses) incurred by the Company and the Agents and other incidental expenses, which were \$518,950, were paid out of the gross proceeds of the Offering. In addition, the Agents’ fees, which were \$2,970,000, were paid to the Agents from the gross proceeds of the Offering.

11.2 ONGOING FEES AND EXPENSES

The Manager coordinates the organization of the Company and Credit Trust IV and manages the ongoing administrative affairs of the Company and business and administrative affairs of Credit Trust IV.

The aggregate of the annual fees and expenses to be directly and indirectly borne by the Company is expected to be less than 1.0% of the net asset value of the Company. These fees and expenses consist of (i) annual management fees equal to the lesser of (a) 0.35% of the net asset value of the Company and (b) 0.35% of the Company’s initial net asset value; and (ii) a reduction in the value of Canadian Securities to be delivered under the Forward Agreement equal on an annual basis to 0.30% of the par value of the Credit Linked Note (which equates to an annual fee of 0.30%); and (iii) operating expenses in connection with operation and administration (as described below). If the fees and expenses described above exceed 1.10% of the par value of the Preferred Shares per year (being \$0.275 per Preferred Share per year), the Manager will agree to fund such excess out of, but only to the extent of, its Deferred Management Fee (as defined below).

To the extent that any assets remain after the original issue price of the Preferred Shares, together with any accrued and unpaid distributions have been paid to Holders, the Manager will be paid (i) an amount equal to any fees and expenses funded by the Manager on behalf of the Company, and (ii) an additional one-time management fee payable on the Redemption Date, calculated on the quarterly NAV on an effective basis of 0.65% per annum (the “Deferred Management Fee”).

For the year ended June 30, 2008, the Company accrued \$190,168, and in the Credit Trust IV accrued \$76,581 in management fees due to the manager.

No fees are payable to BNS under the Credit Linked Note. Any benefit realized by BNS under the Credit Linked Note is priced into the coupon paid on the Credit Linked Note.

11.2.1 Management Fees

As compensation for management services rendered to the Company, the Manager is entitled to receive an annual management fee in an amount equal to the lesser of (a) 0.25% of the net asset value of the Company and (b) 0.25% of the Company’s initial net asset value, to be calculated and payable monthly in arrears, plus applicable taxes. The Manager is also entitled to the Deferred Management Fee together with any fees and expenses funded by the Manager, plus applicable taxes, to be paid after the original issue price of the Preferred Shares together with any accrued and unpaid distributions have been paid to Holders.

As compensation for management services rendered to Credit Trust IV, the Manager is entitled to receive an annual management fee in an amount equal to the lesser of (a) 0.10% of the net asset value of Credit Trust IV and (b) 0.10% of Credit Trust IV’s initial net asset value calculated and payable monthly in arrears, plus applicable taxes.

The Manager, in its capacity as manager of Credit Trust IV, is responsible for payment of the investment management fees of the Investment Advisor.

11.2.2 On-Going Expenses

The Company pays to the Counterparty a fee under the Forward Agreement of approximately 0.30% per annum of the net asset value of Credit Trust IV, calculated and payable quarterly in arrears. Such fee includes any hedging costs incurred by the Counterparty.

Each of the Company and Credit Trust IV pay for all expenses incurred in connection with its operation and administration. These expenses include, without limitation: mailing and printing expenses for periodic reports to Holders; fees payable to the trustee for acting as trustee of Credit Trust IV; fees payable to the Valuation Agent for performing certain valuation services; fees payable to the custodian for acting as custodian of the assets of the Company; fees payable to the transfer agent and registrar for performing certain financial, record keeping, reporting and general administrative services; fees payable to the auditors and legal advisors; fees payable to certain of the directors of the Company and to members of the Advisory Board; ongoing regulatory filing fees and other fees; any reasonable out-of-pocket expenses incurred by the Manager or its agents in connection with their ongoing obligations to the Company or Credit Trust IV; expenses relating to portfolio transactions; and any expenditures which may be incurred upon the termination of Credit Trust IV. Each of the Company and Credit Trust IV will also be responsible for any extraordinary expenses which may be incurred from time to time.

12 CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

12.1 TAXATION OF THE COMPANY

The Company qualifies and intends to continue to qualify as a mutual fund corporation under the Tax Act. As a mutual fund corporation the Company is entitled to capital gains refunds in respect of (i) capital gains dividends paid by it; and (ii) qualifying redemptions to the extent that the Company has paid or is liable to pay Canadian federal income tax on its taxable capital gains. As a result thereof, and of the deduction of expenses in computing its taxable income, the Company should not be subject to any material net Canadian income tax liability.

12.2 TAXATION OF HOLDERS

Returns of capital distributed by the Company to Holders are generally not subject to tax but will reduce the adjusted cost base of the Preferred Shares to the Holder. The amount of any capital gains dividend received by a Holder will be considered to be a capital gain of the Holder from the disposition of capital property in the taxation year of the Holder in which the capital gains dividend is received. Holders are not expected to receive distributions other than returns of capital and, in certain circumstances, capital gains dividends. A disposition of a Preferred Share held as capital property may result in a capital gain or a capital loss to the Holder thereof. A redemption or retraction of Preferred Shares is considered to be a disposition for these purposes.

13 MATERIAL CONTRACTS

Material contracts, which have been entered into by the Company since its formation, other than contracts entered into in the ordinary course of business, are as follows:

- (i) the Management Agreement made between the Company and the Manager referred to under “Management of the Company — The Manager”;
- (ii) the custodian agreement made between the Company and RBC Dexia Investor Services referred to under “Custodian”; and
- (iii) the Forward Agreement made between the Company and the Counterparty referred to under “Investment of the Company — Forward Agreement”.

Although the Company is not a party to them, the Credit Linked Note and the Note Repurchase Agreement between Credit Trust IV and BNS, referred to under “The Credit Linked Note — Liquidity of the Credit Linked Note” are, by virtue of the Forward Agreement, relevant to the Holders of the Preferred Shares.

Copies of the contracts referred to above may be inspected during normal business hours at the offices of the Manager at 181 University Ave., Suite 300, Toronto, Ontario, and they are also available on www.sedar.com.

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Connor, Clark & Lunn ROC Pref Corp.

Additional information about Connor, Clark & Lunn ROC Pref Corp. is available in the financial statements. You can get a copy of the financial statements, including a statement of portfolio transactions, at no charge by contacting the Manager at:

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181 University Avenue
Toronto, ON M5H 3M7

www.cclcapitalmarkets.com

➤ Phone: 416 862-2020

➤ E-mail: dcabral@cclgroup.com