

PROSPECTUS

Initial Public Offering

May 27, 2004



Connor, Clark & Lunn
Investment Management Ltd.

ROC PREF CORP.

\$100,000,000 Maximum (4,000,000 Preferred Shares)

\$25.00 per Preferred Share

This prospectus qualifies the issuance by ROC Pref Corp. (the “Company”) of redeemable, retractable cumulative preferred shares (the “Preferred Shares”). The Preferred Shares have been assigned a preliminary rating of P-1 (low) by Standard & Poor’s, a division of The McGraw Hill Companies, Inc. (“S&P”).

The Company’s investment objectives with respect to the Preferred Shares are (i) to pay to holders of Preferred Shares (“Holders”), on or about September 30, 2009 (“Redemption Date”), an amount per Preferred Share equal to the original subscription price of \$25.00 per Preferred Share and (ii) to provide Holders with quarterly fixed cumulative preferential distributions of \$0.26875 per Preferred Share (\$1.075 per annum to yield 4.30% on the subscription price of \$25.00 per Preferred Share). The first distribution, which covers the period from closing to September 30, 2004, is expected to be \$0.35342 per Preferred Share based on the anticipated closing date of June 2, 2004. Preferred Share distributions will consist primarily of returns of capital, but may include capital gains dividends.

The Company will invest the net proceeds of the offering of Preferred Shares (the “Offering”) in order to provide exposure to a credit-linked note (“Credit-Linked Note”) which has been assigned a preliminary rating of A – by S&P. The Credit-Linked Note will be issued by HSBC Bank USA, a global financial institution whose long-term debt is rated AA – by S&P. The return on the Credit-Linked Note will be linked to the number of defaults experienced over the term of the Credit-Linked Note among the companies in an equally-weighted portfolio (the “CLN Portfolio”) of approximately 125 to 150 companies (the “Reference Companies”), all of which are currently rated investment grade by S&P. See “The Credit-Linked Note”, “CLN Portfolio”, “Investment Objectives and Strategy of the Company” and “Investment Guidelines of the Credit Trust”. There is no “principal protection” or “guaranteed interest” in respect of, or limit on the amount of the reduction that may be made to the initial principal value of the Credit-Linked Note. Holders will be exposed, by virtue of the Forward Agreement (as defined below), to the credit risk of the Reference Companies in the CLN Portfolio and may suffer a loss of their entire investment.

In order to provide the Company with the means to meet its investment objectives, the Company will enter into a forward purchase and sale agreement (the “Forward Agreement”) with The Bank of Nova Scotia (the “Counterparty”) which will provide the Company with the economic return generated by the Credit-Linked Note. The Credit-Linked Note will be owned by a newly created investment trust (the “Credit Trust”). See “Investment Objectives and Strategy of the Company” and “Investment Guidelines of the Company”. **If HSBC Bank USA, as the issuer of the Credit-Linked Note were to default on its senior debt, the Credit Trust, and by virtue of the Forward Agreement, the Company would have, assuming no recovery, little or no assets to meet its obligations to holders of its securities, including the Preferred Shares.**

Connor, Clark & Lunn Capital Markets Inc. (the “Manager”) has been retained to act as manager for both the Company and the Credit Trust and will be responsible for providing or arranging for the provision of administrative services required by both the Company and the Credit Trust. The Manager will be responsible for acquiring a portfolio of common shares of Canadian public companies and entering into the Forward Agreement on behalf of the Company. See “Management of the Company — The Manager” and “Management of the Credit Trust — The Manager”. The Manager will appoint Connor, Clark & Lunn Investment Management Ltd. (the “Investment Advisor”) as investment advisor to the Credit Trust. The Investment Advisor will be responsible for the execution of the investment strategy of the Credit Trust, including determining and actively monitoring the CLN Portfolio and, where possible, mitigating the risks associated with such portfolio. See “Management of the Credit Trust — The Investment Advisor”.

Price: \$25.00 per Preferred Share

	Price to Public ⁽¹⁾	Agents’ Fee	Net Proceeds to the Company ⁽²⁾
Per Preferred Share	\$25.00	\$0.75	\$24.25
Total Minimum Offering ⁽³⁾	\$35,000,000	\$1,050,000	\$33,950,000
Total Maximum Offering	\$100,000,000	\$3,000,000	\$97,000,000

- (1) The offering price was established by negotiation between the Manager and the Agents.
- (2) Before deducting the expenses of issue which are estimated to be \$960,000, which together with the Agents’ fee will be paid out of the proceeds of the Offering.
- (3) There will be no closing unless a minimum of 1,400,000 Preferred Shares are sold. If subscriptions for a minimum of 1,400,000 Preferred Shares have not been received within 90 days following the date of issuance of a receipt for this prospectus, the offering may not continue without the consent of the Canadian securities regulators and those who have subscribed for Preferred Shares on or before such date.

The Company is considered to be a mutual fund corporation, but has obtained exemptive relief from certain of the protections provided by the policies of the Canadian securities regulators applicable to conventional mutual funds. There can be no assurance that the Company will be able to achieve its capital repayment objective or its distribution objective. See “Risk Factors” for a discussion of certain factors that should be considered by prospective investors in Preferred Shares.

Preferred Shares may be surrendered for retraction at any time and will be redeemed by the Company on the Redemption Date. See “Details of the Offering — Certain Provisions of the Preferred Shares”.

The Toronto Stock Exchange has conditionally approved the listing of Preferred Shares, subject to fulfillment by the Company of the requirements of such exchange by August 18, 2004, including distribution to a minimum number of Holders.

There is currently no market through which Preferred Shares may be sold and purchasers may not be able to resell Preferred Shares purchased under this prospectus. The Agents (as defined below) may over-allot or effect transactions as described under “Plan of Distribution”.

In the opinion of Osler, Hoskin & Harcourt LLP, counsel to the Company, and Stikeman Elliott LLP, counsel to the Agents, the Preferred Shares, if and when listed on a prescribed stock exchange, will be qualified investments under the *Income Tax Act* (Canada) (the “Tax Act”) for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans. Provided the Company complies with its investment guidelines, the Preferred Shares will not constitute “foreign property” for purposes of the tax imposed under Part XI of the Tax Act.

Scotia Capital Inc. (“Scotia Capital”) is an Agent (as defined below) of the Offering. The Company will have exposure to the economic return of the Credit-Linked Note by virtue of the Forward Agreement. Scotia Capital is also an affiliate of the Counterparty. Scotia Capital may, as agent, purchase on behalf of the Company, the securities in the Common Share Portfolio (as defined herein) and is entitled to receive commissions in respect of such purchases. The Preferred Shares do not represent an interest in, or an obligation of, The Bank of Nova Scotia or any affiliate thereof. See “Interest of Management and Others in Material Transactions”.

Scotia Capital, BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., TD Securities Inc., Desjardins Securities Inc., Canaccord Capital Corporation, First Associates Investments Inc. and Raymond James Ltd. (collectively, the “Agents”), as agents, conditionally offer the Preferred Shares for sale on a best efforts basis, subject to prior sale, if, as and when issued by the Company and accepted by the Agents in accordance with the conditions contained in the Agency Agreement referred to under “Plan of Distribution” and subject to approval of certain legal matters on behalf of the Company and the Manager by Osler, Hoskin & Harcourt LLP and on behalf of the Agents by Stikeman Elliott LLP.

Subscriptions for the Preferred Shares offered hereby will be received subject to acceptance or rejection in whole or in part and the right is reserved to close the subscription books at any time without notice. Closing of the Offering is expected to occur on or about June 2, 2004, but no later than July 29, 2004. Registrations and transfers of Preferred Shares will be effected only through the book-entry only system administered by The Canadian Depository for Securities Limited (“CDS”). Beneficial owners of Preferred Shares will not have the right to receive physical certificates evidencing their ownership.

The Preferred Shares do not represent an interest in, or an obligation of, HSBC Bank USA or any affiliate thereof. Neither the Company nor the Holders of Preferred Shares will have any recourse against HSBC Bank USA or any affiliate thereof in respect of any payments due to the Company or Holders.

The Credit Trust has agreed to obtain a receipt for a prospectus of the Credit Trust from the Autorité des marchés financiers and deliver a copy of such prospectus to purchasers in the Province of Québec prior to the purchase of Preferred Shares by any person in the Province of Québec.

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PROSPECTUS SUMMARY

The following is a summary of the principal features of the Offering and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus.

- Issuer:** ROC Pref Corp. (the “Company”) is a corporation established under the laws of Ontario which invests its assets in accordance with the investment objectives and strategy described under “Investment Objectives and Strategy of the Company”.
- Offering:** The offering consists of redeemable, retractable cumulative preferred shares (the “Preferred Shares”) of the Company (the “Offering”).
- Rating:** The Preferred Shares have been assigned a preliminary rating of P-1 (low) by Standard & Poor’s, a division of The McGraw Hill Companies, Inc. (“S&P”). 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 with respect to the Preferred Shares. The rating is based on a number of factors, including the structure of the Company, the Credit Trust and the Credit-Linked Note (as defined below), and an assessment of the creditworthiness of the counterparty to the Forward Agreement (as defined below) and the global financial institution which will issue the Credit-Linked Note. A security 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.
- Issue:** Minimum: \$35,000,000 (1,400,000 Preferred Shares).
Maximum: \$100,000,000 (4,000,000 Preferred Shares).
- Price:** \$25.00 per Preferred Share.
- Investment Objectives:** The Company’s investment objectives are:
- (i) **capital repayment:** to pay holders of Preferred Shares (“Holders”) on September 30, 2009 (the “Redemption 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 \$0.26875 per Preferred Share (\$1.075 per annum to yield 4.30% 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.
- Investment Strategy:** The Company will invest the net proceeds of the Offering in order to provide exposure to a credit-linked note (“Credit-Linked Note”) which has been assigned a preliminary rating of A – by S&P. The Credit-Linked Note will be issued by HSBC Bank USA (“HSBC”), a global financial institution whose long-term debt is rated AA- by S&P. The return on the Credit-Linked Note will be linked to the number of defaults experienced over the term of the Credit-Linked Note among companies in an equally weighted portfolio (the “CLN Portfolio”) of approximately 125 to 150 companies (the “Reference Companies”) all of which are currently rated investment grade by S&P. In addition, from time to time, the Company may have exposure to cash and cash equivalents. See “The Credit-Linked Note — CLN Portfolio”, “Investment Objectives and Strategy of the Company” and “Investment Guidelines of the Credit Trust”.

In order to meet its investment objectives, the Company will enter into a forward purchase and sale agreement (the “Forward Agreement”) with The Bank of Nova Scotia (the “Counterparty”) which will provide the Company with the economic return generated by the Credit-Linked Note. Under the terms of the Forward Agreement, the Counterparty will agree to pay the Company on or about the Redemption Date, as the purchase price for a portfolio of common shares of Canadian public companies (the “Common Share Portfolio”) to be acquired by the Company with the net proceeds of the Offering, the economic return provided by the Credit-Linked Note. The Credit-Linked Note will be owned by a newly created investment trust (the “Credit Trust”). See “Investment Objectives and Strategy of the Company” and “Investment Guidelines of the Company — Forward Agreement”.

The Company will partially settle the Forward Agreement prior to the Redemption Date in order to fund quarterly distributions as well as retractions of Preferred Shares by Holders and expenses and other liabilities of the Company.

Distributions:

Holder of Preferred Shares will be entitled to receive quarterly fixed cumulative preferential cash distributions of \$0.26875 per Preferred Share (\$1.075 per annum to yield 4.30% on the subscription price of \$25.00 per Preferred Share) which will be paid to Holders on or about the last Business Day of March, June, September and December of each year. The Company expects that the initial distribution will be payable to Holders on September 30, 2004. The first distribution which covers the period from closing to September 30, 2004 is expected to be \$0.35342 per Preferred Share based on an anticipated closing date of June 2, 2004. Preferred Share distributions will consist 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 “Details of the Offering — Certain Provisions of the Preferred Shares — Distributions” and “Canadian Federal Income Tax Considerations”.

The Credit-Linked Note:

The Credit-Linked Note held by the Credit Trust is a five-year senior, unsecured obligation of HSBC and has been assigned a preliminary rating of A– by S&P. See “The Credit-Linked Note”. The return on the Credit-Linked Note will be linked to the number of defaults experienced over the term of the Credit-Linked Note among the Reference Companies in the CLN Portfolio, all of which are currently rated investment grade by S&P.

In general, credit-linked notes are sold to institutional investors and are not available to retail investors. The rating of the Credit-Linked Note has been based on a number of factors, including the diversification and credit quality of the CLN Portfolio as well as the level of defaults net of recoveries that the CLN Portfolio can tolerate without affecting the payment of interest on and the principal value of the Credit-Linked Note.

The Credit-Linked Note will be issued at par, will mature on September 30, 2009 and will pay a fixed Canadian dollar coupon of at least 6.80% on the outstanding principal amount. The actual coupon will be determined prior to closing and will be sufficient to pay expenses and enable the Company to receive sufficient amounts under the Forward Agreement to fund distributions on the Preferred Shares. The actual payments of interest on and the actual principal value of the Credit-Linked Note will be affected by the credit performance of the Reference Companies in the CLN Portfolio. The

Credit-Linked Note has been structured so that it is unaffected by the first net losses on the CLN Portfolio up to a specified percentage of the initial value of the CLN Portfolio. Currently, that percentage is 3.95% of the initial value of the CLN Portfolio, which means that provided there are no more than 8 to 10 defaults by Reference Companies in the CLN Portfolio, assuming recovery rates set out in “The Credit-Linked Note — Performance Under Historical Default and Recovery Scenarios” during the term in which the Credit-Linked Note is outstanding, the Credit-Linked Note would be expected to meet all of its interest and principal repayment obligations. If cumulative defaults with respect to the Reference Companies in the CLN Portfolio, net of any amounts recovered after the occurrence of such defaults, do not exceed a total of 3.95% of the initial value of the CLN Portfolio during the term of the Credit-Linked Note, the Credit Trust will receive its full coupon payments and par value on maturity. To the extent that cumulative losses, net of any recoveries, incurred as a result of defaults exceed 3.95%, the principal amount of the Credit-Linked Note, and therefore the amount that will be paid to the Credit Trust on maturity, will decline. To the extent that cumulative losses in the CLN Portfolio, net of any recoveries, incurred as a result of defaults exceed a specified percentage of the initial value of the CLN Portfolio, the Credit-Linked Note will likely have no value on maturity. Currently, that percentage is 4.95%. A “default” in respect of the Reference Companies in the CLN Portfolio includes the occurrence of bankruptcy, failure to pay or restructuring. See “The Credit-Linked Note — Certain Provisions of the Credit-Linked Note — Defaults in the CLN Portfolio”. Interest on the Credit-Linked Note will be calculated on the basis of the weighted average principal amount outstanding during each interest period. Accordingly, if the principal amount of the Credit-Linked Note is reduced as a result of defaults in the CLN Portfolio, the amount of interest received by the Credit Trust will decline. The Credit-Linked Note may be redeemed by HSBC prior to the maturity date in certain circumstances. See “The Credit-Linked Note — Certain Provisions of the Credit-Linked Note — Events of Default and Early Redemptions.”

Based on both the average and worst case cumulative five-year historical default records over the twenty one years ending 2002 and using historical recovery rates as detailed below, the Credit-Linked Note would have paid all interest payments and repaid the full principal amount at maturity.

The historical average level of cumulative defaults over a five-year period on a mix of credits comparable to the CLN Portfolio is 1.89% (based on a long-term study of credit defaults conducted by S&P for the period from 1981 to 2002 entitled “Ratings Performance 2002 — Default, Transition, Recovery and Spreads”). Based on the same study, the historical worst level of cumulative defaults over a five-year period on a mix of credits comparable to the CLN Portfolio, which occurred during the period from 1987 to 1991, is 2.87%.

Typically, when bonds default they can still be sold to recover a portion of their principal amount. The amount recovered varies from time to time depending on market conditions and the specific situation of the defaulting entity. Based on a study by S&P entitled “Recovery Rates for Credits in Global Synthetic CDOs Q4 2003”, the average recovery rate experienced on entities in reference portfolios of synthetic CDOs that underwent credit events between January 2000 and December 2003 was 35.9% of par value. A

study by Professor Edward Altman of the New York University Stern School of Business entitled “Defaults and Returns in the High Yield Bond Market: The Year 2003 in Review and Market Outlook” gives a longer term perspective on recovery rates, examining average prices on default for bonds (categorized by their original ratings) over the period from 1971 to 2003. Based on this study, the average price after default on a mix of credits comparable to the CLN Portfolio was 47.5% of par value.

Applying the recent and long-term historical recovery rates of 35.9% and 47.5% to the historical average level of cumulative five-year defaults of 1.89% would result in net average loss levels over a five-year period of 0.99% to 1.21%. Applying the same historical recovery rates to the historical worst level of cumulative five-year defaults of 2.87% would result in net worst loss levels of 1.51% to 1.84%. The Credit-Linked Note held by the Credit Trust can sustain a net loss of up to a total of 3.95% of the initial value of the CLN Portfolio during the term of the Credit-Linked Note and still continue to make all interest payments and return the full principal amount at maturity. See “The Credit-Linked Note — Impact of Defaults in the CLN Portfolio on the Credit-Linked Note” and “The Credit-Linked Note — Performance under Historical Default and Recovery Scenarios”.

See “The Credit-Linked Note — Certain Provisions of the Credit-Linked Note” for a summary of the terms and conditions of the Credit-Linked Note, including the terms and conditions relating to defaults and their impact on the Credit-Linked Note, substitution rights, events of default and early redemption and valuation.

If HSBC, as the issuer of the Credit-Linked Note were to default on its senior debt, the Credit Trust, and by virtue of the Forward Agreement, the Company would have, assuming no recovery, little or no assets to meet its obligations to holders of its securities, including the Preferred Shares.

HSBC’s rights and obligations arise solely under the Credit-Linked Note and the Note Repurchase Agreement. HSBC is not acting as an investment advisor to the Credit Trust or any other party under this Offering, and HSBC has no obligations of any kind to Holders.

The Credit-Linked Note will not be a bank deposit and will not be insured or guaranteed by the United States Federal Deposit Insurance Corporation, the Canada Deposit Insurance Corporation or any other insurer.

Net Asset Value:

The net asset value per Preferred Share will be calculated twice a month and will be based on the value of the Credit-Linked Note. The value of the Credit-Linked Note will be determined by the Manager using a price indication provided by HSBC and such other information as the Manager deems relevant. HSBC will provide the Credit Trust with a price indication of the value of the Credit-Linked Note twice a month commencing after closing. See “The Credit-Linked Note”. On closing of the Offering, as a result of Agents’ fees and other issue expenses, the Company’s net asset value per Preferred Share is estimated to be \$24.01. The estimated fixed coupon on the Credit-Linked Note of at least 6.80% is expected to exceed the amount required to fund the annual Preferred Share distributions of \$1.075 per Preferred Share and estimated annual operating expenses of \$160,000 by an amount which is expected to be equivalent to approximately \$0.27 per Preferred Share annually. This excess will be reinvested in cash, cash equivalents and other evidences of indebtedness. On this basis, it would take

approximately 3.7 years for the Credit Trust to retain sufficient excess amounts in order for the Company to be able to fund a payment of \$25.00 per Preferred Share on the Redemption Date. Any amount in excess of \$25.00 retained by the Credit Trust will form part of the assets of the Credit Trust.

The Credit Trust's ability to reinvest excess amounts will be based on the performance of the Credit-Linked Note. The actual payments of interest on and the actual principal value of the Credit-Linked Note and the amount payable to the Credit Trust on maturity thereof will be based on the credit performance of the CLN Portfolio. See "The Credit-Linked Note — Performance Under Historical Default and Recovery Scenarios".

CLN Portfolio:

The CLN Portfolio will be equally-weighted and will provide exposure to the credit performance of between 125 and 150 Reference Companies (representing 0.80% to 0.67% exposure to each Reference Company). The Reference Companies in the CLN Portfolio will initially carry a weighted average rating of BBB+ and are broadly diversified by industry and geographical location. The Reference Companies will be selected and actively monitored by the Investment Advisor (as defined below).

The following tables outline the distribution by S&P rating, country and industry of the companies selected by the Investment Advisor as being illustrative of the Reference Companies that will be included in the CLN Portfolio (the "Indicative CLN Portfolio"):

<i>By Rating</i>		
Rating	Number of Issuers	Percent
AAA	2	1.4%
AA+	0	0.0%
AA	2	1.4%
AA –	5	3.6%
A+	9	6.4%
A	17	12.1%
A –	26	18.6%
BBB+	25	17.9%
BBB	40	28.6%
BBB –	14	10.0%
	140	100%

<i>By Country</i>		
Country	Number of Issuers	Percent
United States	93	66.4%
Britain	11	7.9%
Germany	9	6.4%
France	4	2.9%
Canada	4	2.9%
Hong Kong	3	2.1%
Netherlands	3	2.1%
South Korea	3	2.1%
Spain	2	1.4%
Switzerland	2	1.4%
Australia	1	0.7%
Bermuda	1	0.7%
Italy	1	0.7%
Luxembourg	1	0.7%
Malaysia	1	0.7%
Sweden	1	0.7%
	140	100%

<i>By Industry</i>		
Industry Category⁽¹⁾	Number of Issuers	Percent
Utilities	10	7.1%
Telecommunications	9	6.4%
Financial Intermediaries	9	6.4%
Aerospace and Defense	8	5.7%
Business Equipment and Services	7	5.0%
Food/Drug Retailers	7	5.0%
Insurance	7	5.0%
Retailers	6	4.3%
Brokerages	6	4.3%
Building and Development	6	4.3%
Automotive	5	3.6%
Oil and Gas	5	3.6%
Farming/Agriculture	5	3.6%
Lodging and Casinos	4	2.9%
Air Transport	4	2.9%
Chemicals/Plastics	4	2.9%
Forest Products	4	2.9%
Electronics/Electric	4	2.9%
Publishing	4	2.9%
Drugs	3	2.1%
Cable TV	3	2.1%
Leisure Goods/Activities/Movie	3	2.1%
Conglomerates	2	1.4%
Food Products	2	1.4%
Home Furnishings	2	1.4%
Nonferrous Metals/Minerals	2	1.4%
Steel	2	1.4%
Healthcare	2	1.4%
Beverage and Tobacco	1	0.7%
Rail Industries	1	0.7%
Equipment Leasing	1	0.7%
Industrial Equipment	1	0.7%
Surface Transport	1	0.7%
Total	140	100.0%

(1) Categorized by the Investment Advisor using the Global Industry Classification Standard adopted by S&P.

The Investment Advisor’s Approach to Selecting the CLN Portfolio:

The Investment Advisor will employ a number of screening techniques to construct 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 will consider 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; and
- credit analysis from a quantitative and qualitative perspective, including a review of third party reports from rating agencies and others.

The Credit Trust will have certain substitution rights with respect to the Reference Companies in the CLN Portfolio. Any proposed substitution must comply with certain substitution procedures as set out in the terms of the Credit-Linked Note, will be limited to an approved list of companies and will not be made if, at the time of the substitution, the then current rating of the Credit-Linked Note would be downgraded. In addition, substitutions may only be made to the extent that there are sufficient amounts in the trading reserve account established by the Credit Trust with HSBC to offset any losses resulting from such substitutions. See “The Credit-Linked Note — Certain Provisions of the Credit-Linked Note”.

Credit Trust:

A newly created investment trust, the Credit Trust, will acquire the Credit-Linked Note. The initial holder of units of the Credit Trust will be the Counterparty or affiliates of the Counterparty.

The return to Holders will primarily be dependent, by virtue of the Forward Agreement, upon the return on the Credit-Linked Note. Neither the Company nor the Holders will have any ownership interest in the Credit Trust or the Credit-Linked Note held by the Credit Trust.

Manager:

Connor, Clark & Lunn Capital Markets Inc. (the “Manager”) will perform management services for both the Company and the Credit Trust. The Manager will provide or arrange for the provision of all administrative services required by both the Company and the Credit Trust and will supervise the activities of the Investment Advisor. The Manager will be responsible for acquiring the Common Share Portfolio and entering into the Forward Agreement on behalf of the Company. See “Management of the Company — The Manager” and “Management of the Credit Trust — The Manager”.

Investment Advisor:

The Manager will appoint Connor, Clark & Lunn Investment Management Ltd. (the “Investment Advisor”) as investment advisor to the Credit Trust. The Investment Advisor will be responsible for the execution of the Credit Trust’s investment strategy, including constructing the CLN Portfolio and actively monitoring the Reference Companies in the CLN Portfolio to which the return on the Credit-Linked Note is linked, and, where possible, mitigating the risks associated with such portfolio. See “Management of the Credit Trust — The Investment Advisor”.

Retraction:

Preferred Shares may be surrendered for retraction at any time but will be retracted only on the last day of the month (a “Valuation Date”)

commencing August 31, 2004. 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 such holder will receive payment on or before the tenth Business Day following such Valuation Date. On a retraction, Holders will be entitled to receive a retraction price per share (the “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. See “Details of the Offering — Certain Provisions of the Preferred Shares — Retraction” and “Details of the Offering — Suspension of Redemption or Retractions of Preferred Shares”.

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 hereinafter defined) 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”.

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, if any; and (ii) the amount received on settlement of the Forward Agreement (which will be an amount equal to the maturity value of the Credit-Linked Note less any liabilities of the Credit Trust), and on the disposition of 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. For this purpose, liabilities will not include any expenses previously funded by the Manager on behalf of the Company and Deferred Management Fees. The Company may also redeem Preferred Shares prior to the Redemption Date in certain other limited circumstances; for example, if as a result of a change of law, payments made under the Credit-Linked Note become subject to withholding tax. See “The Credit-Linked Note — Certain Provisions of the Credit-Linked Note” and “Details of the Offering — Certain Provisions of the Preferred Shares.”

The Residual Amount is equal to the amount, 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 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. There is no guarantee that any such Residual Amount will remain.

Priority:

The Preferred Shares will rank prior to the Class A Shares of the Company with respect to the payment of distributions and the repayment of capital on 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

(after payment of expenses) and all of the losses arising as a result of the Company's investments will be for the account of the Holders. See "Details of the Offering — Certain Provisions of the Preferred Shares".

Use of Proceeds:

The Company will use the net proceeds of the Offering to provide exposure to the economic return generated by the Credit-Linked Note through the Forward Agreement. See "Use of Proceeds".

Book-Entry Only System:

Registration of the interests in and transfers of the Preferred Shares will be made only through the book-entry only system of The Canadian Depository for Securities Limited ("CDS"). Preferred Shares must be purchased, transferred and surrendered for retraction or redemption through a participant in the CDS book-entry only system. Beneficial owners of Preferred Shares will not have the right to receive physical certificates evidencing their ownership of such Preferred Shares.

Eligibility for Investment:

In the opinion of Osler, Hoskin & Harcourt LLP, counsel to the Company, and Stikeman Elliott LLP, counsel to the Agents, provided that the Preferred Shares offered hereby are listed on a prescribed stock exchange, the Preferred Shares will be qualified investments under the *Income Tax Act* (Canada) (the "Tax Act") for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans. Provided that the Company complies with its Investment Guidelines, Preferred Shares will not constitute "foreign property" for purposes of the tax imposed under Part XI of the Tax Act.

Canadian Federal Income Tax Considerations

Taxation of the Company:

At the closing of the Offering, the Company will qualify and intends to continue to qualify as a mutual fund corporation under the Tax Act. As a mutual fund corporation the Company will be 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.

Taxation of Holders:

Returns of capital distributed by the Company to Holders will generally not be 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 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.

For a detailed explanation of the Canadian federal income tax considerations, see "Canadian Federal Income Tax Considerations".

Risk Factors:

An investment in Preferred Shares is subject to certain risk factors, including:

- (i) there can be no assurance that the Company will be able to achieve its capital repayment objective or its distribution objective;
- (ii) there is no guarantee that the Credit-Linked Note will earn any return and the Credit-Linked Note could be subject to losses, including the fact that if defaults occur with respect to the Reference Companies in the CLN Portfolio, the principal amount of the Credit-Linked Note may be reduced, possibly to zero;
- (iii) the net asset value of the Company will vary according to, among other things, interest rates, credit spreads, the overall performance of the debt markets and the value of the Credit-Linked Note;
- (iv) Preferred Shares may trade in the market at a premium or discount to the net asset value per Preferred Share and there can be no assurance that Preferred Shares will trade at a price equal to the net asset value per Preferred Share;
- (v) counterparty risks associated with the Forward Agreement and the Credit-Linked Note;
- (vi) the termination of the Note Repurchase Agreement;
- (vii) there can be no assurance that the Preferred Shares or the Credit-Linked Note will maintain their rating by S&P and any lowering or withdrawal of such ratings may have a negative effect on the market value of the Preferred Shares;
- (viii) risks related to the CLN Portfolio and the Reference Companies in the CLN Portfolio;
- (ix) substitution in respect of the Reference Companies in the CLN Portfolio is subject to the discretion of the Investment Advisor and can only be effected if certain conditions are satisfied;
- (x) the Company will not have a direct investment in the Credit-Linked Note and HSBC will have no obligations to the Company or the Counterparty;
- (xi) the absence of recourse of Holders against the Reference Companies in the CLN Portfolio resulting from the absence of a proprietary interest of the Company or the Counterparty in the CLN Portfolio or the Reference Companies therein;
- (xii) the discretion of HSBC with respect to certain provisions of the Credit-Linked Note;
- (xiii) trading and other transactions by HSBC or its affiliates in the securities of the Reference Companies may adversely affect the value of the Credit-Linked Note;
- (xiv) HSBC's business activities may create conflicts of interest and there are actual and potential conflicts of interest between the Credit Trust, as holder of the Credit-Linked Note, and HSBC;
- (xv) the fact that if, contrary to the advice of counsel to the Company and to the Agents or as a result of a change of law, upon physical

settlement of the Forward Agreement, the character and timing of the gain under the Forward Agreement were other than a capital gain (pursuant to the application of the general anti-avoidance rule or otherwise) on the sale of the securities thereunder, after-tax returns to Holders could be reduced, possibly to an amount less than that which would have been realized by Holders if they had held a direct investment in the Credit Trust or the Credit-Linked Note;

- (xvi) if any interest payment on the Credit-Linked Note is or becomes subject to United States federal withholding tax, HSBC may determine not to gross-up the interest payable to the Credit Trust in all circumstances, and may redeem the Credit-Linked Note prior to the scheduled maturity date, potentially at a price materially less than the par value;
- (xvii) the redemption price received for the Credit-Linked Note if it is redeemed for tax reasons or the amounts payable upon acceleration of the Credit-Linked Note may be substantially less than the initial principal amount of the Credit-Linked Note and, in some cases, may be zero;
- (xviii) reliance on the Manager, the Investment Advisor and key personnel;
- (xix) Counterparty risks associated with securities lending;
- (xx) the Company's lack of operating history and the current absence of a public trading market for Preferred Shares;
- (xxi) possible changes in tax or other legislation;
- (xxii) legal and statutory rights;
- (xxiii) potential conflicts of interest; and
- (xxiv) foreign market exposure.

See "Risk Factors".

SUMMARY OF FEES AND EXPENSES

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

<u>Type of Charge</u>	<u>Description</u>
Fees payable to the Agents for selling Preferred Shares:	\$0.75 per Preferred Share.
Expenses of issue:	The Company will pay the expenses incurred in connection with the Offering, which are estimated to be \$960,000.
Ongoing Annual Fees and Expenses:	<p>The aggregate of the ongoing annual fees and expenses to be directly and indirectly borne by the Company is expected to be less than 1.25% of net asset value. These fees and expenses consist of (i) annual management fees of 0.35% of net asset value of the Company; (ii) fees payable under the Forward Agreement; and (iii) ongoing expenses in connection with operation and administration. If the fees and expenses described above exceed 1.25% of the Company’s net asset value 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).</p> <p>No fees are payable to HSBC under the Credit-Linked Note. Any benefit realized by HSBC in connection with the issuance of the Credit-Linked Note is priced into the coupon paid on the Credit-Linked Note.</p> <p>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 net asset value of the Company on an effective basis of 0.65% per annum (the “Deferred Management Fee”).</p> <p>The breakdown of the management fees described above between the Company and the Credit Trust is described under “Fees and Expenses”.</p> <p>The Manager, in its capacity as Manager of the Credit Trust, is responsible for payment of the investment management fees of the Investment Advisor.</p>
On-Going Expenses:	<p>The Company will pay to the Counterparty a fee under the Forward Agreement of approximately 0.55% per annum of the net asset value of the Credit Trust, plus a fee related to share borrow costs incurred by the Counterparty which in the first year is expected to be approximately 0.15% of the market value of the Common Share Portfolio, calculated and payable quarterly in arrears. The fees related to share borrow costs incurred by the Company may be offset by fees earned by the Company from securities lending arrangements. See “Investment Guidelines of the Company — Securities Lending”.</p> <p>Each of the Company and the Credit Trust will also pay all expenses incurred in connection with its operation and administration, estimated to be \$145,000 and \$15,000 respectively, per annum. See “Fees and Expenses — On-Going Expenses” and “Investment Guidelines of the Company — Forward Agreement”. Each of the Company and the Credit Trust will also be responsible for its other costs of portfolio transactions and any extraordinary expenses which may be incurred from time to time.</p>

THE COMPANY

ROC Pref Corp. (the “Company”) is a corporation incorporated under the laws of the Province of Ontario on April 13, 2004. 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 of the Company and the registered office of the Manager is Suite 5700, Box 416, 1 First Canadian Place, 100 King Street West, Toronto, Ontario M5X 1E3.

Status of the 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 exemptions from certain requirements of National Instrument 81-102 of the Canadian Securities Administrators (“NI 81-102”).

INVESTMENT OBJECTIVES AND STRATEGY OF THE COMPANY

The Company’s investment objectives are:

- (i) **capital repayment:** to pay to holders of Preferred Shares (“Holders”), on or about September 30, 2009 (the “Redemption 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 \$0.26875 per Preferred Share (\$1.075 per annum to yield 4.30% 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.

The Company will meet its investment objectives by entering into a forward purchase and sale agreement (the “Forward Agreement”) with The Bank of Nova Scotia (the “Counterparty”) which will provide the Company with the economic return generated by a credit-linked note (“Credit-Linked Note”). Under the terms of the Forward Agreement, the Counterparty will agree to pay to the Company on or about the Redemption Date, as the purchase price for a portfolio of common shares of Canadian public companies (the “Common Share Portfolio”) to be acquired by the Company with the net proceeds of the offering of Preferred Shares (the “Offering”), the economic return provided by the Credit-Linked Note. See “Investment Guidelines of the Company — Forward Agreement”. The Credit-Linked Note has been assigned a preliminary rating of A– by Standard & Poor’s, a division of The McGraw Hill Companies, Inc. (“S&P”) and will be owned by a newly created investment trust (the “Credit Trust”). The Credit-Linked Note will be issued by HSBC Bank USA (“HSBC”), a global financial institution whose long-term debt is rated AA– by S&P. 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 an equally weighted portfolio (the “CLN Portfolio”) of approximately 125 to 150 companies (the “Reference Companies”) all of which are currently rated investment grade by S&P. In addition, from time to time, the Company may have exposure to cash and cash equivalents.

The Company may have exposure to cash and cash equivalents by virtue of the Forward Agreement because the Credit-Linked Note pays cash distributions to the Credit Trust. Any excess amount received by the Credit Trust over what is paid out will be reinvested in the Credit Trust and held in cash, cash equivalents and other evidences of indebtedness. This amount is expected to be approximately 1.0% per annum.

THE CREDIT-LINKED NOTE

The Credit-Linked Note held by the Credit Trust is a five-year senior, direct, unconditional and unsecured obligation of HSBC and has been assigned a preliminary rating of A– by S&P. The Credit-Linked Note does not evidence a deposit and is not insured by the Federal Deposit Insurance Corporation in the United States, the Canada Deposit Insurance Corporation or any other insurer. The Credit-Linked Note will rank *pari passu* with all unsecured deposits of HSBC accepted by its branches outside the United States and all other unsecured and unsubordinated indebtedness of HSBC (other than obligations preferred by statute or by operation of law such

as claims of a receiver for administrative expenses and claims of holders of domestic (U.S.) deposit liabilities of HSBC), present or future. HSBC is a global financial institution whose long-term debt is rated AA – by S&P.

In general, credit-linked notes are sold to institutional investors and are not available to retail investors. The rating of the Credit-Linked Note has been based on a number of factors, including the diversification and credit quality of the CLN Portfolio as well as the level of defaults, net of recoveries, that the CLN Portfolio can tolerate without affecting the payment of interest on and the principal value of the Credit-Linked Note. See “Rating of the Credit-Linked Note” below.

The Credit-Linked Note will be issued at par, will mature on September 30, 2009 and will pay a Canadian dollar coupon of at least 6.80% per annum on the outstanding principal amount. The actual coupon will be determined prior to closing and will be sufficient to pay expenses and enable the Company to receive sufficient amounts under the Forward Agreement to fund distributions on the Preferred Shares. The actual payments of interest on and the actual principal value of the Credit-Linked Note will be affected by the credit performance of the Reference Companies in the CLN Portfolio. See “The Credit-Linked Note — Certain Provisions of the Credit-Linked Note — Defaults in the CLN Portfolio” for a description of the circumstances under which payment at maturity may be deferred.

If HSBC, as the issuer of the Credit-Linked Note were to default on its senior debt, the Credit Trust, and by virtue of the Forward Agreement, the Company would have, assuming no recovery, little or no assets to meet its obligations to holders of its securities, including the Preferred Shares. HSBC’s rights and obligations arise solely under the Credit-Linked Note. HSBC will not act as an investment advisor to the Credit Trust or any other party under this Offering, and HSBC has no obligations of any kind to Holders.

Impact of Defaults in the CLN Portfolio on the Credit-Linked Note

If HSBC determines that a default (also referred to as a credit event) has occurred in respect of one or more Reference Companies in the CLN Portfolio and the market value of any of such companies’ debt obligations, as selected by HSBC, has declined as compared to their par value, a loss amount will be calculated in respect of such decline in value. A default in respect of the Reference Companies in the CLN Portfolio includes the occurrence of bankruptcy, failure to pay or restructuring. The principal amount of the Credit-Linked Note will be reduced to the extent that the aggregate of all such loss amounts exceeds a specified percentage of the initial value of the CLN Portfolio. As a result, the amount payable upon redemption of the Credit-Linked Note may be substantially less than the initial principal amount thereof and, in some cases, may be zero. In addition, interest on the Credit-Linked Note will cease to accrue on the portion of the principal amount of the Credit-Linked Note that has been reduced.

The Credit-Linked Note has been structured so that it is unaffected by the first net losses on the CLN Portfolio up to a specified percentage of the initial value of the CLN Portfolio. Currently, that percentage is 3.95% of the initial value of the CLN Portfolio, which means that provided there are no more than 8 to 10 defaults by Reference Companies in the CLN Portfolio, assuming recovery rates set out in “The Credit-Linked Note — Performance Under Historical Default and Recovery Scenarios” during the term in which the Credit-Linked Note is outstanding, the Credit-Linked Note would be expected to meet all of its interest and principal repayment obligations. If cumulative defaults with respect to the Reference Companies in the CLN Portfolio, net of any amounts recovered after the occurrence of such defaults, do not exceed a total of 3.95% of the initial value of the CLN Portfolio during the term of the Credit-Linked Note, the Credit Trust will receive its full coupon payments and par value on maturity. To the extent that cumulative losses, net of any recoveries, incurred as a result of defaults exceed 3.95%, the principal amount of the Credit-Linked Note, and therefore the amount that will be paid to the Credit Trust on maturity thereof, will decline. To the extent that cumulative losses in the CLN Portfolio, net of any recoveries, incurred as a result of defaults exceed a specified percentage of the initial value of the CLN Portfolio, the Credit-Linked Note will have no value on maturity. Currently, that percentage is 4.95%. Interest on the Credit-Linked Note will be calculated on the basis of the weighted average principal amount outstanding during each interest period. Accordingly, if the principal amount of the Credit-Linked Note is reduced as a result of defaults in the CLN Portfolio, the amount of interest received by the Credit Trust will decline.

See “The Credit-Linked Note — Performance under Historical Default and Recovery Scenarios” below. See “The Credit-Linked Note — Certain Provisions of the Credit-Linked Note” for a summary of the terms and conditions of the Credit-Linked Note, including the terms and conditions relating to defaults and their impact on the Credit-Linked Note, substitution rights, events of default and early redemption and valuation.

Performance Under Historical Default and Recovery Scenarios

Based on both the average and worst case cumulative five-year historical default records over the twenty one years ending 2002 and using historical recovery rates as detailed below the Credit-Linked Note would have paid all interest payments and repaid the full principal amount at maturity.

The historical average level of cumulative defaults over a five-year period on a mix of credits comparable to the CLN Portfolio is 1.89% (based on a long-term study of credit defaults conducted by S&P for the period from 1981 to 2002 entitled “Ratings Performance 2002 — Default, Transition, Recovery and Spreads”). Based on the same study, the historical worst level of cumulative defaults over a five-year period on a mix of credits comparable to the CLN Portfolio, which occurred during the period from 1987 to 1991, is 2.87%.

Typically, when bonds default they can still be sold to recover a portion of their principal amount. The amount recovered varies from time to time depending on market conditions and the specific situation of the defaulting entity. Based on a study by S&P entitled “Recovery Rates for Credits in Global Synthetic CDOs Q4 2003”, the average recovery rate experienced on entities in reference portfolios of synthetic CDOs that underwent credit events between January 2000 and December 2003 was 35.9% of par value. A study by Professor Edward Altman of the New York University Stern School of Business entitled “Defaults and Returns in the High Yield Bond Market: The Year 2003 in Review and Market Outlook” gives a longer term perspective on recovery rates, examining average prices on default for bonds (categorized by their original ratings) over the period from 1971 to 2003. Based on this study, the average price after default on a mix of credits comparable to the CLN Portfolio was 47.5% of par value.

Applying the recent and long-term historical recovery rates of 35.9% and 47.5% to the historical average level of cumulative five-year defaults of 1.89% would result in net average loss levels over a five-year period of 0.99% to 1.21%. Applying the same historical recovery rates to the historical worst level of cumulative five-year defaults of 2.87% would result in net worst loss levels of 1.51% to 1.84%. The Credit-Linked Note held by the Credit Trust can sustain a net loss of up to a total of 3.95% of the initial value of the CLN Portfolio during the term of the Credit-Linked Note and still continue to make all interest payments and return the full principal amount at maturity.

The following tables show the historical default coverage levels and the sensitivity of the principal value of the Credit-Linked Note to various levels of net losses in the CLN Portfolio over a five-year period.

Historical Default Coverage Levels					
Description	Cumulative 5-Year Default Rate ⁽¹⁾	Net Loss at Historical Recovery Levels of: ⁽²⁾⁽³⁾		Implied Coverage Level on Credit-Linked Note ⁽⁴⁾	
		35.9%	47.5%	35.9%	47.5%
Historical Average Default Rate	1.89%	1.21%	0.99%	3.3x	4.0x
Historical Worst Default Rate	2.87%	1.84%	1.51%	2.1x	2.6x

Default Rate Sensitivity Analysis						
Number of Reference Companies Defaulting	Implied Cumulative 5-Year Default Rate	Multiple of Historical Average Default Rate ⁽¹⁾	Net Loss at Historical Recovery Levels of: ⁽²⁾⁽³⁾		Percent of Par Value of Credit Linked Note Remaining	
			35.9%	47.5%	35.9%	47.5%
4.00	2.86%	1.5x	1.83%	1.50%	100.0%	100.0%
5.00	3.57%	1.9x	2.29%	1.87%	100.0%	100.0%
6.00	4.29%	2.3x	2.75%	2.25%	100.0%	100.0%
7.00	5.00%	2.6x	3.21%	2.62%	100.0%	100.0%
8.00	5.71%	3.0x	3.66%	3.00%	100.0%	100.0%
9.00	6.43%	3.4x	4.12%	3.37%	82.9%	100.0%
10.00	7.14%	3.8x	4.58%	3.75%	37.1%	100.0%
11.00	7.86%	4.2x	5.04%	4.12%	0.0%	82.9%
12.00	8.57%	4.5x	5.49%	4.50%	0.0%	45.4%
13.00	9.29%	4.9x	5.95%	4.87%	0.0%	7.9%

- (1) Based on the transition study for the period from 1981 to 2002 conducted by S&P and entitled “Ratings Performance 2002 — Default, Transition, Recovery and Spreads”. Portfolio default rates are calculated by weighting the proportion of the CLN Portfolio at each S&P rating by the historical average and worst default levels for that rating. **The tables above are provided to illustrate the historical average level of cumulative defaults over a five-year period and are not necessarily indicative of the returns which will be earned on the Credit-Linked Note. Historical performance is not necessarily indicative of future performance.**
- (2) A recovery rate of 35.9% is based on S&P’s study entitled “Recovery Rates for Credits in Global Synthetic CDOs Q4 2003”.
- (3) A recovery rate of 47.5% is based on a study by Professor Edward Altman of New York University, Stern School of Business entitled “Defaults and Returns in the High Yield Bond Market: The Year 2003 in Review and Market Outlook”.
- (4) Level of net losses within the CLN Portfolio before the coupon or principal amount of the Credit-Linked Note is affected. Currently that level is 3.95%.

Net Asset Value

The net asset value per Preferred Share will be calculated twice a month and will by virtue of the Forward Agreement be based on the value of the Credit-Linked Note. The value of the Credit-Linked Note will be determined by the Manager using a price indication provided by HSBC and such other information as the Manager deems relevant. HSBC will provide the Credit Trust with a price indication of the value of the Credit-Linked Note twice a month. On closing of the Offering, as a result of Agents’ fees and other issue expenses, the Company’s net asset value per Preferred Share is estimated to be \$24.01. The estimated fixed coupon on the Credit-Linked Note of at least 6.80% is expected to exceed the amount required to fund the annual Preferred Share distributions of \$1.075 per Preferred Share and estimated annual operating expenses of \$160,000 by an amount which is expected to be equivalent to approximately \$0.27 per Preferred Share annually. This excess will be reinvested in cash, cash equivalents and other evidences of indebtedness. On this basis, it would take approximately 3.7 years for the Credit Trust to retain sufficient excess amounts in order for the Company to be able to fund a payment of \$25.00 per Preferred Share on the Redemption Date. Any amount in excess of \$25.00 retained by the Credit Trust will form part of the assets of the Credit Trust.

The Credit Trust’s ability to reinvest excess amounts will be based on the performance of the Credit-Linked Note. The actual payments of interest on and the actual principal value of the Credit-Linked Note, and the amount payable to the Credit Trust on maturity thereof, will be based on the performance of the CLN Portfolio. See “The Credit-Linked Note — Performance Under Historical Default and Recovery Scenarios”.

CLN Portfolio

The CLN Portfolio will be equally-weighted and will provide exposure to the credit performance of between 125 and 150 Reference Companies (representing 0.80% to 0.67% exposure to each Reference Company). The Reference Companies in the CLN Portfolio will initially carry a weighted average rating of BBB+ and are

broadly diversified by industry and geographical location. The Reference Companies in the CLN Portfolio will be selected and actively monitored by the Investment Advisor (as defined below).

The following are the names, S&P ratings, industries and countries of origin of the companies selected by the Investment Advisor, as of the date hereof, as being illustrative of the Reference Companies that will be included in the CLN Portfolio (collectively, the “Indicative CLN Portfolio”)⁽¹⁾.

<u>Company Name</u>	<u>S&P Rating</u>	<u>Industry</u>	<u>Country</u>
Accor	BBB	Lodging and Casinos	FRANCE
Agrium Inc.	BBB	Farming/Agriculture	CANADA
Albertson’s, Inc.	BBB	Food/Drug Retailers	UNITED STATES
Altria Group, Inc.	BBB+	Beverage and Tobacco	UNITED STATES
Ambac Financial Group, Inc.	AA	Insurance	UNITED STATES
American International Group, Inc.	AAA	Insurance	UNITED STATES
Aon Corporation	A–	Insurance	UNITED STATES
Arcelor	BBB	Steel	LUXEMBOURG
BAA plc	A+	Building and Development	BRITAIN
BAE Systems Plc	BBB	Aerospace and Defense	BRITAIN
Barrick Gold Corporation	A	Non ferrous Metals/Minerals	CANADA
Baxter International Inc.	A–	Healthcare	UNITED STATES
Bayer Aktiengesellschaft	A+	Chemicals/plastics	GERMANY
Bear Stearns Companies Inc. (The)	A	Brokerages	UNITED STATES
Boeing Capital Corporation	A	Aerospace and Defense	UNITED STATES
Bombardier Capital Inc.	BBB–	Financial Intermediaries	UNITED STATES
Bristol-Myers Squibb Company	AA–	Drugs	UNITED STATES
British American Tobacco p.l.c.	BBB+	Farming/Agriculture	BRITAIN
British Telecommunications public limited company	A–	Telecommunications	BRITAIN
Burlington Northern Santa Fe Corporation	BBB+	Rail Industries	UNITED STATES
Capital One Bank	BBB–	Financial Intermediaries	UNITED STATES
Cargill, Incorporated	A+	Farming/Agriculture	UNITED STATES
Carnival Corporation	A–	Leisure Goods/Activities/Movies	UNITED STATES
Casino Guichard-Perrachon	BBB	Food/Drug Retailers	FRANCE
Cendant Corporation	BBB	Business Equipment and Services	UNITED STATES
Centex Corporation	BBB	Building and Development	UNITED STATES
CenturyTel, Inc.	BBB+	Telecommunications	UNITED STATES
Chiron Corporation	A–	Healthcare	UNITED STATES
Cingular Wireless LLC	A+	Telecommunications	UNITED STATES
CIT Group Inc.	A	Financial Intermediaries	UNITED STATES
Citigroup Inc.	AA–	Financial Intermediaries	UNITED STATES
Comcast Cable Communications, Inc.	BBB	Cable TV	UNITED STATES
Compagnie de Saint-Gobain	A–	Building and Development	FRANCE
Compagnie Financiere Michelin	BBB+	Automotive	SWITZERLAND
Computer Associates International, Inc.	BBB–	Electronics/Electric	UNITED STATES
Computer Sciences Corporation	A	Electronics/Electrical	UNITED STATES
Constellation Energy Group, Inc.	BBB+	Utilities	UNITED STATES
Continental AG	BBB	Automotive	GERMANY
Cooper Tire & Rubber Company	BBB	Automotive	UNITED STATES
Countrywide Home Loans, Inc.	A	Financial Intermediaries	UNITED STATES
Cox Communications, Inc.	BBB	Cable TV	UNITED STATES
CSX Corporation	BBB	Surface Transport	UNITED STATES
CVS Corporation	A–	Food/Drug Retailers	UNITED STATES
DaimlerChrysler AG	BBB	Automotive	GERMANY
Deere & Company	A–	Farming/Agriculture	UNITED STATES
Deutsche Lufthansa AG	BBB	Air Transport	GERMANY
Deutsche Telekom AG	BBB+	Telecommunications	GERMANY
Diamond Offshore Drilling, Inc.	A	Oil and Gas	UNITED STATES
Domtar, Inc.	BBB–	Forest Products	CANADA
Dow Chemical Company (The)	A–	Chemicals/plastics	UNITED STATES
Duke Capital Corporation	BBB	Utilities	UNITED STATES
Eastman Chemical Company	BBB	Chemicals/plastics	UNITED STATES
Eastman Kodak Company	BBB–	Electronics/Electric	UNITED STATES

<u>Company Name</u>	<u>S&P Rating</u>	<u>Industry</u>	<u>Country</u>
Endesa S.A.	A	Utilities	SPAIN
European Aeronautic Defence and Space Co	A	Aerospace and Defense	NETHERLANDS
Federated Department Stores, Inc.	BBB+	Retailers	UNITED STATES
FedEx Corporation	BBB	Air Transport	UNITED STATES
FirstEnergy Corp.	BBB-	Utilities	UNITED STATES
Ford Motor Credit Company	BBB-	Financial Intermediaries	UNITED STATES
General Electric Capital Corporation	AAA	Financial Intermediaries	UNITED STATES
General Motors Acceptance Corporation	BBB	Financial Intermediaries	UNITED STATES
Goldman Sachs Group, Inc. (The)	A+	Brokerages	UNITED STATES
Goodrich Corporation	BBB-	Aerospace and Defense	UNITED STATES
Hannover Rueckversicherungs-AG	AA-	Insurance	GERMANY
Harrah's Entertainment, Inc.	BBB-	Lodging and Casinos	UNITED STATES
Hilton Group plc	BBB	Lodging and Casinos	BRITAIN
Hongkong Land Company, Limited (The)	BBB+	Building and Development	HONG KONG
Hutchison Whampoa Limited	A-	Conglomerates	HONG KONG
Imperial Chemical Industries plc	BBB	Chemicals/plastics	BRITAIN
Ingersoll-Rand Company	BBB+	Industrial Equipment	UNITED STATES
International Business Machines Corporation	A+	Business Equipment and Services	UNITED STATES
International Lease Finance Corporation	AA-	Equipment Leasing	UNITED STATES
International Paper Company	BBB	Forest Products	UNITED STATES
J Sainsbury plc	BBB+	Food/Drug Retailers	BRITAIN
J.P. Morgan Chase & Co.	A+	Brokerages	UNITED STATES
Koninklijke KPN N.V.	A-	Telecommunications	NETHERLANDS
Korea Electric Power Corporation	A-	Utilities	SOUTH KOREA
Korea Telecom	A-	Telecommunications	SOUTH KOREA
Kraft Foods Inc.	A-	Food Products	UNITED STATES
Kroger Co. (The)	BBB	Food/Drug Retailers	UNITED STATES
Land Securities plc	A-	Building and Development	BRITAIN
Lehman Brothers Holdings Inc.	A	Brokerages	UNITED STATES
Lockheed Martin Corporation	BBB	Aerospace and Defense	UNITED STATES
Loews Corporation	A	Insurance	UNITED STATES
Marriott International, Inc.	BBB+	Lodging and Casinos	UNITED STATES
Mattel, Inc.	BBB	Leisure Goods/Activities/Movies	UNITED STATES
May Department Stores Company (The)	BBB+	Retailers	UNITED STATES
Maytag Corporation	BBB	Home Furnishings	UNITED STATES
MBIA Inc.	AA	Insurance	UNITED STATES
MBNA Corporation	BBB	Financial Intermediaries	UNITED STATES
MeadWestvaco Corporation	BBB	Forest Products	UNITED STATES
Merrill Lynch & Co., Inc.	A+	Brokerages	UNITED STATES
Metro AG	BBB	Retailers	GERMANY
Monsanto Company	A	Farming/Agriculture	UNITED STATES
Morgan Stanley	A-	Brokerages	UNITED STATES
Motorola, Inc.	BBB	Telecommunications	UNITED STATES
Nabors Industries, Inc.	A-	Oil and Gas	UNITED STATES
Newell Rubbermaid Inc.	BBB+	Home Furnishings	UNITED STATES
Newmont Mining Corporation	BBB	Nonferrous Metals/Minerals	UNITED STATES
News America Incorporated	BBB-	Publishing	UNITED STATES
Nordstrom, Inc.	A-	Retailers	UNITED STATES
Northrop Grumman Systems Corporation	BBB	Aerospace and Defense	UNITED STATES
Omnicom Group Inc.	A-	Business Equipment and Services	UNITED STATES
PCCW-HKT Telephone Limited	BBB	Telecommunications	HONG KONG
Pepco Holdings, Inc.	BBB+	Utilities	UNITED STATES
Petroliam Nasional Berhad	A-	Oil and Gas	MALAYSIA
POSCO	A-	Steel	SOUTH KOREA
Pulte Homes, Inc.	BBB-	Building and Development	UNITED STATES
Qantas Airways Limited	BBB+	Air Transport	AUSTRALIA
RadioShack Corporation	A-	Retailers	UNITED STATES
Raytheon Company	BBB-	Aerospace and Defense	UNITED STATES
Reuters Group plc	A	Business Equipment and Services	BRITAIN
Rolls-Royce Plc	BBB	Aerospace and Defense	BRITAIN

<u>Company Name</u>	<u>S&P Rating</u>	<u>Industry</u>	<u>Country</u>
Sabre Holdings Corporation	BBB+	Business Equipment and Services	UNITED STATES
Safeway Inc.	BBB	Food/Drug Retailers	UNITED STATES
Schering-Plough Corporation	A-	Drugs	UNITED STATES
Securitas AB	BBB+	Business Equipment and Services	SWEDEN
Siemens Aktiengesellschaft	AA-	Conglomerates	GERMANY
Southwest Airlines Co.	A	Air Transport	UNITED STATES
Sprint Corporation	BBB-	Telecommunications	UNITED STATES
STMicroelectronics N.V.	A-	Electronics/Electric	SWITZERLAND
Suez	A-	Utilities	FRANCE
Supervalu Inc.	BBB	Food/Drug Retailers	UNITED STATES
Target Corporation	A+	Retailers	UNITED STATES
TECO Energy, Inc.	BBB-	Utilities	UNITED STATES
Telecom Italia SpA	BBB+	Telecommunications	ITALY
Time Warner Inc.	BBB+	Broadcast Radio and Television	UNITED STATES
Transocean Inc.	A-	Oil and Gas	UNITED STATES
TXU Corporation	BBB	Utilities	UNITED STATES
Tyson Foods, Inc.	BBB	Food Products	UNITED STATES
Union Fenosa, S.A.	BBB+	Utilities	SPAIN
Valero Energy Corporation	BBB	Oil and Gas	UNITED STATES
VNU N.V.	BBB+	Broadcast Radio and Television	NETHERLANDS
Volkswagen Aktiengesellschaft	A	Automotive	GERMANY
Walt Disney Company (The)	BBB+	Leisure Goods/Activities/Movies	UNITED STATES
Weyerhaeuser Company	BBB	Forest Products	UNITED STATES
Wolters Kluwer NV	BBB+	Publishing	NETHERLANDS
WPP Group Plc	BBB+	Publishing	BRITAIN
Wyeth	A	Drugs	UNITED STATES
XL Capital Ltd	A	Insurance	BERMUDA

(1) The actual CLN Portfolio to which the return on the Credit-Linked Note is linked may vary from the Indicative CLN Portfolio. See "Investment Guidelines of the Credit Trust".

The following tables outline the distribution by S&P rating, country and industry of the companies selected by the Investment Advisor as being illustrative of the Reference Companies that will be included in the CLN Portfolio (the “Indicative CLN Portfolio”):

<i>By Rating</i>		
Rating	Number of Issuers	Percent
AAA	2	1.4%
AA+	0	0.0%
AA	2	1.4%
AA –	5	3.6%
A+	9	6.4%
A	17	12.1%
A –	26	18.6%
BBB+	25	17.9%
BBB	40	28.6%
BBB –	14	10.0%
	140	100%

<i>By Country</i>		
Country	Number of Issuers	Percent
United States	93	66.4%
Britain	11	7.9%
Germany	9	6.4%
France	4	2.9%
Canada	4	2.9%
Hong Kong	3	2.1%
Netherlands	3	2.1%
South Korea	3	2.1%
Spain	2	1.4%
Switzerland	2	1.4%
Australia	1	0.7%
Bermuda	1	0.7%
Italy	1	0.7%
Luxembourg	1	0.7%
Malaysia	1	0.7%
Sweden	1	0.7%
	140	100%

<i>By Industry</i>		
Industry Category⁽¹⁾	Number of Issuers	Percent
Utilities	10	7.1%
Telecommunications	9	6.4%
Financial Intermediaries	9	6.4%
Aerospace and Defense	8	5.7%
Business Equipment and Services	7	5.0%
Food/Drug Retailers	7	5.0%
Insurance	7	5.0%
Retailers	6	4.3%
Brokerages	6	4.3%
Building and Development	6	4.3%
Automotive	5	3.6%
Oil and Gas	5	3.6%
Farming/Agriculture	5	3.6%
Lodging/Casinos	4	2.9%
Air Transport	4	2.9%
Chemicals/Plastics	4	2.9%
Forest Products	4	2.9%
Electronics/Electric	4	2.9%
Publishing	4	2.9%
Drugs	3	2.1%
Cable TV	3	2.1%
Leisure Goods/Activities/Movies	3	2.1%
Conglomerates	2	1.4%
Food Products	2	1.4%
Home Furnishings	2	1.4%
Nonferrous Metals/Minerals	2	1.4%
Steel	2	1.4%
Healthcare	2	1.4%
Beverage and Tobacco	1	0.7%
Rail Industries	1	0.7%
Equipment Leasing	1	0.7%
Industrial Equipment	1	0.7%
Surface Transport	1	0.7%
Total	140	100%

(1) Categorized by the Investment Advisor using the Global Industry Classification Standard adopted by S&P.

Rating of the Credit-Linked Note

The Credit-Linked Note has been assigned a preliminary rating of A – 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 the Reference Companies in the CLN Portfolio, the assignment of an estimated recovery rate on defaults, a review of the Investment Advisor and of trading criteria and restrictions and a calculation of the required level of subordination.

In reviewing structural risk, S&P considers the impact of structure on the Credit-Linked Note’s ability to deliver timely interest payments and the payment of the principal value thereof on the maturity date. This analysis is based in part on the level of cash flows expected compared with the expected obligations of the Credit-Linked Note and the priority in which such obligations are to be paid. Other assessments carried out by S&P include an examination of the risk of default associated with any counterparties to derivatives transactions.

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 or that recovery rates with respect thereto will not differ from those assumed in determining the credit enhancement to support the given rating. For a discussion of the rating of the Preferred Shares issued by the Company, see “Details of the Offering — Rating of the Preferred Shares”. 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.

Certain Provisions of the Credit-Linked Note

The Credit-Linked Note has been structured to pay interest at a rate of at least 6.80% per annum, payable quarterly, on the outstanding principal amount. Interest will be paid on the 20th day of March, June, September and December of each year, commencing on September 20, 2004. HSBC will repay the principal amount of the Credit-Linked Note outstanding on September 30, 2009 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 any recoveries with respect thereto. 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, HSBC 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 “The Credit-Linked Note — Defaults in the CLN Portfolio” below for a description of events which constitute a default.

Substitution Rights

The Credit Trust will have certain substitution rights with respect to the Reference Companies in the CLN Portfolio. Any proposed substitution will be limited to an approved list of companies and will not be made if, at the time of the substitution, the then current rating of the Credit-Linked Note would be downgraded or if such proposed substitution would not be in compliance with the substitution procedures set out in the terms of the Credit-Linked Note. Any change in the Reference Companies in the CLN Portfolio shall not be subject to the approval of holders of units of the Credit Trust or Holders of the Preferred Shares.

On the date upon which the Credit-Linked Note is issued, a trading reserve account (the “Trading Reserve Account”) in the amount of approximately 1% of the principal amount of the Credit-Linked Note will be established at HSBC. Any substitutions in respect of the Reference Companies in the CLN Portfolio may result in an increase or decrease in the value of the Trading Reserve Account (which will be calculated by HSBC in its absolute discretion) depending on whether such substitution resulted in a loss or gain in the value of the CLN Portfolio. The value of the Trading Reserve Account on any day will be equal to the value of such account on the date of issue of the Credit-Linked Note, plus any gains resulting from substitutions on or prior to such valuation day, less any losses resulting from substitutions on or prior to such valuation day. Substitutions may only be made to the extent that HSBC has determined that the Trading Reserve Account has a value sufficient to

offset the Credit-Linked Note's share of any losses in the value of the CLN Portfolio resulting from such substitutions.

Events of Default and Early Redemptions

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 seven days following the date on which notice thereof has been given to HSBC, (ii) a default in the payment of any principal of, or premium, if any, on the Credit-Linked Note when due, (iii) a default in the performance of, or a breach of any covenant, undertaking or other agreement in respect of, the Credit-Linked Note by HSBC and such default or breach continues for a period of 45 days following the date on which notice thereof has been given to HSBC, (iv) the passing of an order or effective resolution for the winding-up of HSBC other than in connection with a consolidation, amalgamation, merger or reconstruction, the terms of which have been previously approved in writing by the Credit Trust, (v) HSBC ceases to pay its debts as and when they fall due or commits other events of bankruptcy, or (vi) HSBC or any third party files an application under applicable bankruptcy, reorganization, composition, or insolvency law and, in the case of an application by a third party, such application is not dismissed within 90 days, or HSBC makes a general assignment for the benefit of its creditors. The amount payable upon acceleration of the Credit-Linked Note following an Event of Default will be equal to the then current par value of the note *plus* accrued but unpaid interest up to but excluding the acceleration date *plus* the value of the Trading Reserve Account. The then current par value is equal to the acquisition cost of the note *less* any reduction to the principal as a result of net losses to the CLN Portfolio which exceed 3.95% of the initial value.

The Credit-Linked Note may be subject to redemption by HSBC in the event that interest payments on the Credit-Linked Note become subject to United States federal withholding tax. Counsel to HSBC will provide HSBC, the Credit Trust, the Counterparty and the Agents with the CLN Tax Opinion as described under "United States Withholding Tax Considerations" generally to the effect that payments on the Credit-Linked Note will not be subject to United States federal withholding tax. If HSBC determines not to redeem the Credit-Linked Note upon the occurrence of any such event, it has agreed to pay the Credit Trust such additional amounts as are necessary so that the Credit Trust receives payments with respect to the Credit-Linked Note after the relevant withholding or deduction that would have been received had such withholding or deduction not been required.

The amount payable upon redemption of the Credit-Linked Note as a result of the imposition of withholding tax will be equal to the then current par value of the note *plus* accrued but unpaid interest up to but excluding the redemption date *plus* the value of the Trading Reserve Account *minus* a deduction generally equal to the aggregate costs of terminating transactions used to hedge HSBC's obligations in respect of the Credit-Linked Note, including costs of liquidation of transactions, hedging credit risk and interest rate risk, all as determined by HSBC in a commercially reasonable manner, and any costs related to the imposition of withholding taxes. Where the Credit-Linked Note has become subject to United States federal withholding tax other than as a result of a change in applicable taxation laws or the interpretation or application thereof or any error, omission or inaccuracy of any representation or warranty by the Credit Trust, as purchaser of the Credit-Linked Note, in the agreement pursuant to which it purchased the Credit-Linked Note from HSBC or by the Counterparty, as purchaser of units of the Credit Trust, the amount of such deduction will be nil.

If HSBC determines to redeem the Credit-Linked Note whether as a result of a Change in Law, a Breach of Purchaser Representations, 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).

Liquidity of the Credit-Linked Note

HSBC will enter into an agreement (the "Note Repurchase Agreement") with the Credit Trust pursuant to which HSBC will agree 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 the occurrence of a retraction of Preferred Shares, the Credit

Trust may deliver a note repurchase request to HSBC 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 HSBC pursuant to the terms of the Note Repurchase Agreement must be at least \$100,000, and any amount in excess thereof must be in increments of \$10,000. HSBC 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 HSBC to the Credit Trust 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). In addition to the liquidity provided by the Note Repurchase Agreement, based on the provisions of the Credit-Linked Note, the Credit Trust has the ability to assign and sell all or a portion of the Credit-Linked Note. The net asset value of the Company which is used to calculate the Preferred Share Retraction Price will not include a deduction for the discounts to the indicative price provided by HSBC under the Note Repurchase Agreement.

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) the Credit Trust transfers the Credit-Linked Note to any other person; (b) the holders of the Preferred Shares shall cease to have retraction rights; (c) the Manager ceases to be the manager of the Credit Trust or the Company, unless a successor is appointed, in each case, with the prior written approval of HSBC, which approval shall not be unreasonably withheld; or (d) the Investment Advisor ceases to act as the investment advisor to the Credit Trust, unless a successor is appointed with the prior written approval of HSBC, 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.

Valuation of the Credit-Linked Note

HSBC will provide the Investment Advisor with a price indication of the Credit-Linked Note on the 10th business day and the last business day of each month. HSBC will provide a pricing indication in respect of the Credit-Linked Note using its proprietary models, which are based on proprietary assumptions regarding current and future market conditions or events. Such conditions or events may include the level of interest rates, the credit spreads of the Reference Companies in the CLN Portfolio, the par value of the Credit-Linked Note relative to the size of the CLN Portfolio, any loss of subordination due to defaults, and the liquidity of, and market price relative to low risk fixed income securities of, similar structured products. In providing price indications in respect of the Credit-Linked Note (and in maintaining its proprietary models) HSBC will have no obligation, expressed or implied, to the Company or to any holder of any Preferred Shares.

Defaults in the CLN Portfolio

The following summarizes 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 judgement 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 judgement 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.

HSBC 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 HSBC. HSBC will be required to deliver to the Credit Trust 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 HSBC up to 14 days following the scheduled maturity date of the Credit-Linked Note.

Upon the determination by HSBC of the occurrence of a default with respect to any of the Reference Companies, HSBC 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, HSBC will select one or more senior, unsecured obligations of the Reference Company and, on each of two valuation dates (the first being the 60th business day following the date of all required notices relating to the credit event having been delivered to the Credit Trust, and the second being the fifth business day following the date on which HSBC, as calculation agent, obtains the final price on the selected obligation in connection with the first valuation date, which is expected to be such 60th business day) 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 sum of 50% of the highest quotation obtained on each of the two valuation dates.

If a default occurs in respect of which the recovery amount has not been determined prior to the maturity date of the Credit-Linked Note, and such default could affect the amount returned on the maturity of the Credit-Linked Note, HSBC will partially redeem the Credit-Linked Note on the Redemption Date. The amount payable on such partial redemption will be equal to the maturity value of the Credit-Linked Note that would be calculated assuming that there was a nil recovery in respect of the defaulting Reference Company. To the extent that recoveries are realized on the defaulting Reference Company after the maturity date, any additional amounts payable on the Credit-Linked Note as a result of such recoveries, including any interest that would have been due on the recovered amount, will be for the account of the Credit Trust and will be included in the net asset value of the Credit Trust in calculating the value of the Forward Agreement.

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 3.95% of the initial value of the CLN Portfolio.

HSBC Bank USA

HSBC is the principal subsidiary of HSBC USA Inc., which is an indirectly-held, wholly-owned subsidiary of HSBC North America Holdings Inc., one of the 10 largest U.S. bank holding companies ranked by assets, and is

an indirectly-held, wholly-owned subsidiary of HSBC Holdings plc (NYSE: HBC). HSBC is headquartered in Buffalo, New York. The HSBC Group, headquartered in London, England, has over 9,500 offices in 79 countries and territories and is one of the world's largest banking and financial services organizations. As at March 31, 2004, HSBC was rated AA- by S&P.

INVESTMENT GUIDELINES OF THE COMPANY

The following section "Investment Restrictions of the Company", together with the section "Investment Objectives and Strategy of the Company", are referred to collectively in this prospectus as the Company's "Investment Guidelines".

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) **Investment in Canadian Securities.** In respect of the Common Share Portfolio, the Company will restrict its investments to common shares of Canadian public companies that are "Canadian securities" for the purposes of the *Income Tax Act* (Canada) (the "Tax Act"). The Company will not make or retain investments that would render the Preferred Shares "foreign property" for purposes of Part XI of the Tax Act.
- (ii) **Other Investments.** The Company may invest a portion of its assets in cash, cash equivalents, or other evidences of indebtedness. Such instruments must be rated a minimum of A-, as defined by S&P (or an equivalent rating from another recognized rating agency) at the time of investment.
- (iii) **Concentration.** The Company will restrict its investments in any one issuer to no more than 10% of its total assets at the time of investment in such issuer (including any exposure obtained through derivatives linking the credit of one issuer to another).
- (iv) **Foreign Currency.** The Company will invest in securities denominated in Canadian dollars only.
- (v) **Mutual Fund Status.** The Company will manage its investments and affairs to ensure that it will be a mutual fund corporation for the purposes of the Tax Act.

The Company will enter into the Forward Agreement and may engage in securities lending as described under and in accordance with "Investment Guidelines of the Company — Forward Agreement" and "Investment Guidelines of the Company — Securities Lending". Except as set forth hereunder, the Company will not invest in any other securities or assets.

Forward Agreement

On or about the date of closing of the Offering, the Company will enter into the Forward Agreement, which is intended to provide the Company with a payment on or about the Redemption Date of an amount equal to the redemption proceeds paid by the Credit Trust to holders of a corresponding number of units of the Credit Trust in exchange for the Common Share Portfolio. Amounts paid by the Credit Trust to its unitholders will be funded by the proceeds received on the maturity of the Credit-Linked Note held by the Credit Trust (after satisfying its liabilities, if any). The Company will not enter into the Forward Agreement unless the aggregate net asset value of the corresponding number of units of the Credit Trust that will determine the purchase price of the Common Share Portfolio under the Forward Agreement will at the time the Credit Trust is capitalized be equal to or greater than the value of the Common Share Portfolio.

Under the terms of the Forward Agreement, the Company and the Counterparty have agreed that their settlement obligations under the Forward Agreement with respect to the Common Share Portfolio securities will be discharged, at the election of the Company, either by physical delivery of the Common Share Portfolio securities by the Company to the Counterparty against cash payment or by the making of a net cash payment to the appropriate party. The amount payable by the Counterparty for physical delivery of the Common Share Portfolio may be more or less than the original subscription price of the Preferred Shares. If the Company elects physical delivery of the Common Share Portfolio under the Forward Agreement, the Counterparty will pay to

the Company on or about the Redemption Date as the purchase price for the Common Share Portfolio an amount equal to the redemption proceeds for a corresponding number of units of the Credit Trust. Prior to the Redemption Date, Common Share Portfolio securities or other acceptable securities will be pledged to and may be held by the Counterparty as security for the obligations of the Company under the Forward Agreement.

If the mark-to-market value of the exposure of the Company to the Counterparty under the Forward Agreement exceeds 30% of the Company's net assets for a period of 60 days or more, the Company may seek to amend the terms of the Forward Agreement, partially settle the Forward Agreement and enter into a replacement forward purchase and sale agreement, or enter into forward or other derivative transactions with other counterparties or take other actions intended to preserve the original objectives of the Forward Agreement. If the Company is not able to take any such action, the Forward Agreement may be settled in part in order to lower the mark-to-market value of the Company's exposure to the Counterparty.

The terms of the Forward Agreement will provide that the Forward Agreement may be partially settled prior to the Redemption Date by the Company tendering to the Counterparty securities of the Common Share Portfolio or by the making of a net cash payment to the appropriate party. The Company will partially settle the Forward Agreement prior to the Redemption Date in order to fund quarterly distributions as well as retractions of Preferred Shares by Holders and expenses and other liabilities of the Company. In addition, the Manager may, on behalf of the Company, settle all or part of the Forward Agreement prior to the Redemption Date and invest the net proceeds (after any distributions to Holders necessary to ensure that the Company is not liable for income tax) in additional investments such as cash and cash equivalents. Similarly, the Manager may, on behalf of the Company, dispose of securities in the portfolio, invest the proceeds from the portfolio of securities in the Common Share Portfolio and adjust the Forward Agreement or enter into additional forward purchase and sale agreements to provide additional exposure to the Credit-Linked Note.

Under the Forward Agreement, the forward purchase price may be reduced for all dividends and distributions, including extraordinary distributions, declared and paid on the Common Share Portfolio securities to the Company as owner of the Common Share Portfolio. If any such dividends or distributions are to be received by the Company, the Forward Agreement will provide that replacement securities acceptable to the Counterparty may be substituted for shares in respect of which the dividend or distribution has been declared. In the event that such replacement securities are not available, the Company may consider contributing additional securities to the Common Share Portfolio and/or entering into additional forward, derivative or other transactions. The Forward Agreement will have similar provisions designed to avoid adjustments of the amount to be paid on or about the Redemption Date which might otherwise be required if the Company receives consideration as a consequence of a merger transaction involving any of the securities in the Common Share Portfolio. The Company may also reinvest excess cash from time to time by contributing additional securities to the Common Share Portfolio and/or entering into additional forward, derivative or other transactions.

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. The Forward Agreement may be terminated prior to the Redemption Date in certain circumstances including: (i) at the option of the Company in its sole discretion as provided for herein; (ii) by the Counterparty if it determines in its sole discretion that it is unable to hedge its position under the Forward Agreement on commercially reasonable terms; or (iii) by the Counterparty if the Company fails to pay the quarterly fee under the Forward Agreement (the "Forward Fee").

The payment obligations of the Counterparty to the Company under the Forward Agreement will be determined by reference to the performance of the Credit Trust. The Counterparty may hedge its exposure under the Forward Agreement to the economic performance of the Credit Trust. 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.

Under the terms of the Forward Agreement, the long-term debt of the Counterparty must be rated at least A by S&P (the "Approved Rating"). If the long-term debt of the Counterparty is no longer so rated, the Company may replace the Counterparty with a counterparty with long-term debt rated at the Approved Rating.

HSBC has no obligations under, and is not a party to, the Forward Agreement. While the value of the Forward Agreement will be based primarily on the value of the Credit-Linked Note, the Counterparty will have no involvement in the pricing or valuation of the Credit-Linked Note.

Structure of the Company at Closing

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

Diagram 1

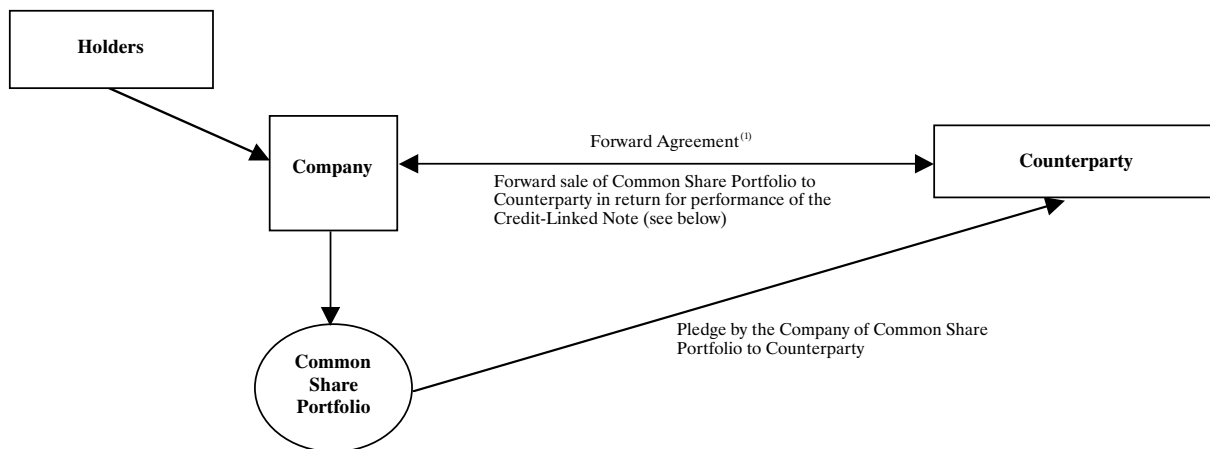
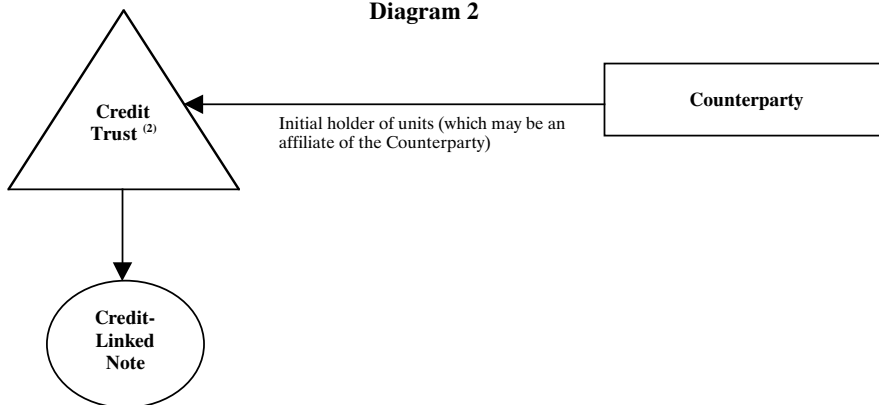


Diagram 2



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

(2) See "The Credit Trust".

Securities Lending

In order to generate additional returns, the Company may lend portfolio assets in accordance with the requirements of NI 81-102. Portfolio assets will be lent to securities borrowers acceptable to the Company pursuant to the terms of a securities lending agreement between the Company and any such borrower (each, a "Securities Lending Agreement"). Under a Securities Lending Agreement: (i) the borrower will pay to the Company a negotiated securities lending fee and will make compensation payments to the Company equal to any distributions received by the borrower on the securities borrowed; (ii) the securities loans must qualify as "securities lending arrangements" for the purposes of the Tax Act; and (iii) the Company will receive prescribed

collateral security. Any securities lending undertaken by the Company will require Common Share Portfolio securities to be released from any pledge of such securities to the Counterparty to the Forward Agreement.

CREDIT TRUST

The Credit Trust is a newly created investment trust established under the laws of Ontario. The Credit Trust was established pursuant to a trust agreement dated May 27, 2004 (the “Trust Agreement”) between the Manager and The Royal Trust Company, as trustee. The initial holder of units of the Credit Trust will be the Counterparty or affiliates of the Counterparty.

The Credit Trust will distribute 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 the Credit Trust will be redeemable at the demand of its unitholders on a daily basis.

The Credit Trust will terminate on the Redemption Date if not terminated earlier in accordance with its terms. On termination, the Credit Trust 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 the Credit Trust. Any amendment to the Declaration of Trust which would have an adverse effect on the ability of the Credit Trust to perform any of its material obligations under any material agreements to which it is a party requires the prior written consent of HSBC, which consent shall not be unreasonably withheld or delayed.

The Manager performs management services for the Credit Trust and will appoint the Investment Advisor as investment advisor to the Credit Trust to construct the CLN Portfolio and actively monitor the Reference Companies in the CLN Portfolio to which the return on the Credit-Linked Note is linked and, where possible, mitigate the risks associated with such portfolio pursuant to an investment advisory agreement (the “Credit Trust Investment Advisory Agreement”) between the Credit Trust and the Investment Advisor. See “Management of the Credit Trust — The Credit Trust Investment Advisory Agreement”.

INVESTMENT GUIDELINES OF THE CREDIT TRUST

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

- (i) **Investments.** The Credit Trust will invest in the Credit-Linked Note. The Credit Trust may also invest a portion of its assets in cash, cash equivalents or other evidences of indebtedness. Such instruments must be (a) rated a minimum of A–, as defined by S&P (or an equivalent rating from another recognized rating agency) at the time of investment, or (b) issued by a Schedule I Canadian chartered bank.
- (ii) **Foreign Currency.** The Credit Trust will invest in securities denominated in Canadian dollars only.
- (iii) **Foreign Issuers.** The Credit Trust will not invest in securities of any foreign issuer if distributions to the Credit Trust from such issuer would be subject to any material 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.

MANAGEMENT OF THE COMPANY

Directors and Officers of the Company

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

<u>Name and Municipality</u>	<u>Position with the Company</u>	<u>Principal Occupation</u>
W. NEIL MURDOCH Oakville, Ontario	Director, President, Chief Executive Officer and Chairman	Director and Chief Executive Officer, Connor, Clark & Lunn Capital Markets Inc.
PHILIP K. GOW* Toronto, Ontario	Director, Chief Financial Officer and Secretary	Director, Chief Financial Officer and Secretary, Connor, Clark & Lunn Capital Markets Inc.
JOHN WOOD* Oakville, Ontario	Director	Corporate Director
JOSEPH WRIGHT* Toronto, Ontario	Director	Corporate Director

* Members of the Audit Committee

Directors of the Company, other than nominees of the Manager, will receive remuneration for their services as directors. 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”.

Joseph Wright currently serves on the board of directors of several public companies and private organizations, including Loblaw Companies Limited and O&Y Real Estate Investment Trust. His former positions include the Chief Executive Officer of Swiss Bank Corporation (Canada) and Vice-Chairman and director of Burns Fry Limited.

John Wood has worked in the financial services industry since 1983 and currently serves on the board of directors of a number of private companies. He is the former Chief Executive Officer of Maxxum Fund Management Ltd., Financial Concept Group Limited and 20/20 Funds Inc.

The Manager

Connor, Clark & Lunn Capital Markets Inc. will perform management services for the Company pursuant to a management agreement (the “Management Agreement”) to be dated on or prior to the date of closing. The Manager will be entitled to receive fees as compensation for management services rendered to the Company. See “Fees and Expenses”.

The Manager is part of the Connor, Clark & Lunn Financial Group, which also includes Connor, Clark & Lunn Investment Management Ltd., Connor, Clark & Lunn Private Capital Ltd., Baker Gilmore & Associates Inc., PCJ Investment Counsel Ltd., Scheer Rowlett & Associates Investment Management Ltd., New Star Canada Inc., Banyan Capital Partners Management Partnership and Tera Inc. (collectively, the “CC&L Group”). The CC&L Group, with approximately \$18 billion in assets under management, offers professional management of financial assets for pension plan sponsors, capital accumulation plans, corporations, foundations, mutual funds and individual investors.

Duties and Services to be Provided by the Manager

Pursuant to the Management Agreement, the Manager has exclusive authority to manage the operations and affairs of the Company, to make all decisions regarding the business of the Company and to bind the Company. The Manager may delegate certain of its powers to third parties where, in the discretion of the Manager, it would be in the best interests of the Company to do so.

The Manager's duties will 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 fulfil 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 will provide office facilities and personnel to carry out these services, together with clerical services which are not furnished by the custodian, valuation agent or transfer agent of the Company.

The Manager will also be responsible for selecting the Common Share Portfolio held by the Company. In addition, the Manager will monitor the Company's investment strategy to ensure compliance with the Investment Guidelines and that the net proceeds of the Offering are invested as described under "Use of Proceeds". The Manager will report 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 will be 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 any recommendations made or reports by the Independent Committee will be included in each of the annual reports provided to Holders.

The Company will enter 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.

Accounting and Reporting

The Company's fiscal year will be the calendar year or such other fiscal period permitted under the Tax Act as the Company elects. The Manager will ensure that the Company complies with all applicable reporting and administrative requirements.

The Manager will keep adequate books and records reflecting the activities of the Company. A Holder or his or her duly authorized representative will have 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.

Officers and Directors of the Manager

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

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

Mr. Murdoch joined Connor, Clark & Lunn Capital Markets Inc. in late 2003. Prior thereto, Mr. Murdoch was Executive Vice President and Portfolio Manager at AIC Group of Funds. Mr. Murdoch received his Bachelor of Commerce degree from McGill University and a Bachelor of Law degree from the University of Toronto. He completed his formal education with a Master of Management degree from the Kellogg Graduate School of Management and holds the Chartered Financial Analyst designation.

Mr. Gow has been a managing director of Brenton Reef Capital Inc. since 1997 and a director and investment manager of Connor, Clark & Lunn Capital Markets Inc. since April 2001. Mr. Gow was an investment counsel/portfolio manager for Triax Investment Management Inc. from November 1998 to March 2001. He holds a Masters of Business Administration degree and the Chartered Financial Analyst designation.

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. He holds a B.Bus.Sci. from the University of Cape Town.

Mr. Pittman joined Connor, Clark & Lunn Capital Markets Inc. in early 2004. Prior thereto, Mr. Pittman was Vice-President and National Sales Manager at AIC Group of Funds. Mr. Pittman received his Bachelor of Commerce degree from Memorial University and also attended McGill University in Montreal, Quebec.

Ms. Stewart has been with Connor, Clark & Lunn Capital Markets Inc. since March 2002. Prior thereto, Ms. Stewart was a Canadian Equities Specialist at Merrill Lynch Canada, with a niche focus on the income trust and structured products areas. She holds a Bachelor of Arts degree from the University of Western Ontario and the Chartered Financial Analyst designation.

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 (any day on which commercial banks are open for business in Toronto, Ontario hereinafter referred to as a "Business Day") 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 will be 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 wilful misconduct, bad faith or negligence.

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 Common Share Portfolio, and provide similar services to other investment funds and other clients and engage in other activities. Investment decisions for the Company will be 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.

MANAGEMENT OF THE CREDIT TRUST

The Manager

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

Duties and Services to be Provided by the Manager

The Manager has exclusive authority to manage the operations and affairs of the Credit Trust, to make all decisions regarding the business of the Credit Trust and to bind the Credit Trust. The Manager may delegate certain of its powers to third parties where, in the discretion of the Manager, it would be in the best interests of the Credit Trust to do so.

Credit Trust 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”.

Advisory Board

The Credit Trust will establish an advisory board (the “Advisory Board”) consisting of at least two members appointed by the Manager each of whom will be independent of the Manager, the Investment 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 judgement. The Advisory Board will provide 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 the Credit Trust 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 will report to the Advisory Board on the operation and performance of the Credit Trust on a quarterly basis, including with respect to compliance with the investment objectives, investment strategies and investment restrictions of the Credit Trust and material contracts of the Credit Trust, as amended from time to time.

The Manager will be 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 the Credit Trust, 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 the Credit Trust 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 the Credit Trust to consider the conflict of interest, potential conflict of interest or related party transaction.

The Credit Trust's annual report to unitholders will include a report by the Advisory Board summarizing any recommendations 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 will be paid by the Credit Trust and the regular fees and expenses of the Advisory Board have been included in the Credit Trust's estimated annual operating expenses of \$25,000. See "Fees and Expenses — On-Going Fees and Expenses". In addition, the Advisory Board will have the authority to retain, at the expense of the Credit Trust, independent counsel or other advisors if the Credit Trust deems it appropriate to do so.

The members of the Advisory Board will be indemnified by the Credit Trust, except in cases of wilful misconduct, bad faith, negligence or breach of their standard of care. The Advisory Board members will not be responsible for the investments made by the Credit Trust, or for the performance of the Credit Trust. The members of the Advisory Board may serve in a similar capacity in respect of other entities managed by the Manager. The initial members of the Advisory Board will be Joseph Wright and John Wood, both of whom are independent of the Manager. The principal occupations of Messrs. Wright and Wood are described above under "Management of the Company — Directors and Officers of the Company".

Conflict of Interest — Manager

The services of the Manager and its officers and directors are not exclusive to the Credit Trust. 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 the Credit Trust, and provide similar services to other investment funds and other clients and engage in other activities. Investment decisions for the Credit Trust will be made independently of those made for other clients and independently of investments of the Manager. On occasion, however, the Manager may manage the same investment for the Credit Trust and for one or more of its other clients. If the Credit Trust and one or more of the other clients of the Manager are engaged in the purchase or sale of the same security, the transactions will be effected on an equitable basis.

The Investment 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 Investment Advisor currently manages assets worth approximately \$11 billion.

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 Advisor</u>	<u>Principal Occupation</u>
LARRY R. LUNN Vancouver, British Columbia	Director, Chairman and President	Director, Chairman and President, Connor, Clark & Lunn Investment Management Ltd.
PHILLIP COTTERILL West Vancouver, British Columbia	Director	Director, Connor, Clark & Lunn Investment Management Ltd.
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, Clark & Lunn Investment Management Ltd.
BRIAN EBY West Vancouver, British Columbia	Director and Vice-President	Director and Vice-President, Connor, Clark & Lunn Investment Management Ltd.
GORDON H. MACDOUGALL Vancouver, British Columbia	Director and Vice President	Director and Vice President, Connor, Clark & Lunn Investment Management Ltd.
J. WARREN STODDART Toronto, Ontario	Director	Managing Partner, Connor, Clark & Lunn Financial Group
SCOTT HACKNEY Etobicoke, Ontario	Vice President	Vice President, Connor, Clark & Lunn Investment Management Ltd.
KATHLEEN A. LEAVENS Vancouver, British Columbia	Corporate Secretary and Compliance Officer	Corporate Secretary and Compliance Officer, Connor, Clark & Lunn Investment Management Ltd.
COLIN JANG Toronto, Ontario	Vice President	Vice President, Connor, Clark & Lunn Investment Management Ltd.

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

Mr. Gerber and Mr. Stoddart were appointed to the Board of the Investment Advisor in 1999 and Mr. Freund in 2001. Mr. Eby was appointed to the Board of the Investment Advisor in 2002. Mr. Cotterill was appointed to the Board of the Investment Advisor in 2003. Mr. Jang was appointed as an officer of the Investment Advisor in 2003.

The team of investment professionals responsible for investment management at the Investment Advisor all have significant experience in managing investment portfolios. The investment managers of the Investment Advisor who will primarily be responsible for the selection and active monitoring of the Reference Companies comprising the CLN Portfolio are Warren Stoddart, Brian Eby, Jane Justice, Chris Kalbfleisch and Jay Menning.

Warren Stoddart: BA; University of Toronto. Mr. Stoddart is a director of the Investment Advisor 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 McMaster University. Mr. Eby is a partner of Connor, Clark & Lunn Investment Management Partnership, and co-head of the fixed income team responsible for fixed income management strategy and research. Mr. Eby has 16 years experience covering three separate recessionary periods. His

experience outside portfolio management includes advising in the structuring/restructuring of public debt programs and underwriting of corporate bonds.

Jay Menning: CFA; B.Comm 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 Advisor 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: B.Mgmt. 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 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 Advisor, Mr. Kalbfleisch has extensive financial market experience that includes alternative asset portfolio management, derivatives trading and credit risk management.

Services to be Provided by the Investment Advisor

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

The Manager is responsible for ensuring that the provisions of the Credit Trust Investment Advisory Agreement are consistent with the investment guidelines and restrictions relating to the Credit Trust 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 the Credit Trust. See “Investment Guidelines of the Credit Trust”.

The Investment Advisor’s approach to Selecting the CLN Portfolio

The Investment Advisor will employ a number of screening techniques to construct 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 will consider 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 the Credit Trust; 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 will build a model portfolio so as to minimize the probability of defaults. A separate qualitative credit analysis will be 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 to arrive at the CLN Portfolio.

The Credit Trust Investment Advisory Agreement

Under the Credit Trust Investment Advisory Agreement, the Investment Advisor is required to act at all times on a basis which is fair and reasonable to the Credit Trust, to act honestly and in good faith with a view to the best interests of the Credit Trust 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 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 judgement, 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 wilful misconduct, bad faith or negligence.

The Credit Trust Investment Advisory Agreement will continue in effect unless earlier terminated in accordance with the terms thereof. If the Manager is terminated, the Credit Trust Investment Advisory Agreement will terminate at such time. The Manager may terminate the Credit Trust Investment Advisory Agreement if the Investment Advisor has committed certain events of bankruptcy or insolvency, has lost any registration, licence 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 the Credit Trust.

The Investment Advisor may terminate the Credit Trust Investment Advisory Agreement upon 20 Business Days' notice in the event that the Credit Trust is in material breach or default of the provisions thereof and such material breach or default has not been cured within 20 Business Days' notice of same to the Manager and to the Credit Trust, or in the event that there is a material change in the investment guidelines of the Credit Trust.

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

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

Conflict of Interest — Investment Advisor

The services of the Investment Advisor and its officers and directors are not exclusive to the Credit Trust 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 the Credit Trust, and provide similar services to other investment funds and other clients and engage in other activities. Investment decisions for the Credit Trust will be 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 the Credit Trust and for one or more of its other clients. If the Credit Trust 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.

DESCRIPTION OF SHARE CAPITAL

The Company is authorized to issue an unlimited number of Preferred Shares and Class A Shares of which, before giving effect to the Offering, there are issued and outstanding 100 Class A Shares. The attributes of the Preferred Shares are described under "Details of the Offering".

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. See “Principal Shareholder”.

DETAILS OF THE OFFERING

The following is a summary of certain provisions of the Preferred Shares offered hereby.

Certain Provisions of the Preferred Shares

Distributions

Holders will be entitled to receive quarterly fixed cumulative preferential cash distributions of \$0.26875 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 offering price of the Preferred Shares of 4.30%. The Company expects that the initial distribution will be payable to Holders on September 30, 2004. The first distribution which covers the period from closing to September 30, 2004 is expected to be \$0.35342 per Preferred Share based on the anticipated closing date of June 2, 2004. Preferred Share distributions will consist 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”.

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 August 31, 2004. Preferred Shares surrendered for retraction by a Holder at least five 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 hereinafter defined), 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”.

As disclosed below under “Details of the Offering — Certain Provisions of the Preferred Shares — Resale of Preferred Shares Tendered for Retraction”, where the holder of Preferred Shares tendered for retraction has not withheld his consent thereto in the manner provided in the retraction notice delivered to CDS through a participant in the CDS book-based system (a “CDS Participant”), the Company may, but is not obligated to, require the Recirculation Agent (as defined below) to use commercially reasonable efforts to find purchasers for any Preferred Shares tendered for retraction prior to the relevant Retraction Payment Date pursuant to the Recirculation Agreement (as defined below). In such event, the amount to be paid to the Holder on the Retraction Payment Date will be an amount equal to the proceeds of the sale of the Preferred Shares less any applicable commission. Such amount will not be less than the Preferred Share Retraction Price described above. Holders of Preferred Shares are free to withhold their consent to such treatment and to require the Company to retract their Preferred Shares in accordance with their terms.

Subject to the Company’s right to require the Recirculation Agent to use commercially reasonable efforts to find purchasers for any Preferred Shares tendered for retraction prior to the relevant Retraction Payment Date, 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 “Details of the Offerings — 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.

Resale of Preferred Shares Tendered for Retraction

The Company will enter into an agreement (the “Recirculation Agreement”) with Scotia Capital Inc. (the “Recirculation Agent”) pursuant to which the Recirculation Agent has agreed to use commercially reasonable efforts to find purchasers for any Preferred Shares tendered for retraction prior to the relevant Retraction Payment Date, provided that the holder of the Preferred Shares so tendered has not withheld consent thereto. The Company is not obligated to require the Recirculation Agent to seek such purchasers but may elect to do so. In the event that a purchaser for such Preferred Shares is found in this manner, the amount to be paid to the holder of the Preferred Shares on the relevant Retraction Payment Date will be an amount equal to the proceeds of the sale of the Preferred Shares less any applicable commission. Such amount will not be less than the applicable Preferred Share Retraction Price described above.

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, if any, and (ii) the amount received on settlement of the Forward Agreement (which will be an amount equal to the maturity value of the Credit-Linked Note less any liabilities of the Credit Trust), and on the disposition of 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. For this purpose, liabilities will not include any expenses previously funded by the Manager on behalf of the Company and Deferred Management Fees. Notice of redemption will be given to CDS Participants holding Preferred Shares on behalf of the beneficial owners thereof at least 30 days prior 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 in the event that HSBC determines to redeem the Credit-Linked Note whether as a result of a Change in Law, a Breach of Purchaser Representations or upon an acceleration of the Credit-Linked Note following an Event of Default or otherwise. See “The Credit-Linked Note — Certain Provisions of the Credit-Linked Note.”

The Residual Amount is equal to the amount, 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. There is no assurance that any Residual Amount will remain.

Rating of the Preferred Shares

The Preferred Shares have been assigned a preliminary 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, the Credit Trust and the Credit-Linked Note, and an assessment of the creditworthiness of the Forward Agreement Counterparty and HSBC. See "The Credit-Linked Note — Rating of the Credit-Linked Note" for information on the rating of the Credit-Linked Note.

Prospective purchasers of the Preferred Shares should consult S&P with respect to the interpretation and implications of the provisional 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.

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.

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 securityholders of the Company.

Suspension of Redemption or Retractions of Preferred Shares

The Manager may suspend the redemption or retraction of Preferred Shares or payment of redemption or retraction proceeds: (i) during any period when normal trading in securities owned by the Company is suspended on the Toronto or New York stock exchanges (provided more than 50% of the total assets of the Company, by dollar value, trade on one of such suspended markets) and if those securities are not traded on any other exchange that represents a reasonably practical alternative for the Company to execute trades in such securities; or (ii) for any period not exceeding 120 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Company or which impair the ability of the Company to determine the value of its assets or in such other circumstances as the Manager considers appropriate, only with the prior approval of the securities regulatory authorities. 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 Manager 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 Manager shall be conclusive.

Book-Entry Only System

Registration of interests in and transfers of the Preferred Shares will be made through the book-entry only system. On the closing of the Offering, the Company will deliver to CDS certificates evidencing the aggregate

number of Preferred Shares subscribed for under this Offering. Preferred Shares must be purchased, transferred and surrendered for retraction or redemption through a CDS Participant. 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 prospectus 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.

SHAREHOLDER MATTERS

Meetings of Shareholders

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

Acts Requiring Shareholder Approval

The following matters require the approval of the holders of Preferred Shares by a two-thirds majority vote (other than items (c), (f), (i) and (j) 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 as described under "Investment Objectives and Strategy of the Company" including any determination by the Company, at its option (other than in connection with a redemption or retraction of Preferred Shares, the funding of liabilities or to reduce its mark-to-market exposure under the Forward Agreement), to terminate the Forward Agreement without entering into replacement arrangements;
- (b) a change in the investment restrictions of the Company as described under "Investment Guidelines of the Company — 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 or the issuance of shares ranking prior to the Preferred Shares;
- (h) a liquidation, dissolution or winding-up of the Company prior to the Redemption Date;
- (i) a reorganization with, or transfer of assets to, another mutual fund corporation, if
 - (i) the Company ceases to continue after the reorganization or transfer of assets; and
 - (ii) the transaction results in shareholders becoming security holders in the other mutual fund corporation;
- (j) a reorganization with, or acquisition of assets of, another mutual fund corporation, if
 - (i) the Company continues after the reorganization or acquisition of assets;
 - (ii) the transaction results in the securityholders of the other mutual fund corporation becoming shareholders of the Company; and
 - (iii) the transaction would be a significant change to the Company;
- (k) a change of the Redemption Date; and
- (l) 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.

Each Preferred Share will have one vote at such a meeting. Ten 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 of Preferred Shares then present will constitute a quorum at an adjourned meeting.

Information and Reports to Holders

The Company will furnish to Holders such financial statements (including quarterly (or, subject to regulatory approval, semi-annual) unaudited and annual audited financial statements, accompanied by management's discussion and analysis of the affairs and operations of the Company and the Credit Trust) and 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. The financial statements of the Credit Trust will include a statement of investments of the Credit Trust. The Company 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.

VALUATION

Valuation of Assets

The Royal Trust Company (the “Valuation Agent”) will, twice a month (each, a “NAV Valuation Date”), calculate the value of the Company’s and the Credit Trust’s respective assets as set forth below.

The total assets of the Company will consist of the aggregate value of the Common Share Portfolio held by the Company and the Forward Agreement together with any assets of the Company invested in cash and cash equivalents. 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 the Credit Trust, the Company’s net asset value (“NAV”) is linked to the value of the Credit-Linked Note. The value of the Credit-Linked Note will be determined by the Manager using a price indication provided by HSBC and such other information as the Manager deems relevant. See “The Credit-Linked Note — Certain Provisions of the Credit-Linked Note — Valuation of the Credit-Linked Note”. The Manager will notify the Valuation Agent of any adjustments in the holdings of either the Company or the Credit Trust. The Manager will review 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.

Net Asset Value

The NAV and the net asset value of the Credit Trust will be calculated by the Valuation Agent on each NAV Valuation Date by subtracting the aggregate amount of the liabilities of the Company or the Credit Trust from the total assets of the Company or the Credit Trust, as applicable. The total assets of the Company and the Credit Trust will be valued as follows:

- (i) the value of any security which is listed or traded upon a stock exchange shall be 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 the Credit Trust 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 the Credit Trust are being determined and to be received) and interest accrued and not yet received, shall be 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 shall be 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 will be 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, will be valued at cost plus accrued interest;
- (v) in the case of the Credit Trust, the value of the Credit-Linked Note will be determined in the manner described under “The Credit-Linked Note — Certain Provisions of 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 shall be 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 NAV per Preferred Share will be calculated twice a month by the Valuation Agent on instruction from the Manager and shall be reviewed by the Manager. Such information will be provided by the Manager to Holders on request. The Manager will also post 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.

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

Audit of Financial Statements

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

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Osler, Hoskin & Harcourt LLP, counsel to the Company, and Stikeman Elliott LLP, counsel to the Agents, the following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable to the acquisition, holding and disposition of Preferred Shares by a Holder who acquires Preferred Shares pursuant to this prospectus. This summary is applicable to a Holder who, for the purposes of the Tax Act, is resident in Canada, deals at arm’s length with the Company and holds Preferred Shares as capital property. This summary is also based on the assumptions that the Common Share Portfolio will consist of “Canadian securities” for purposes of the Tax Act and that the Company will elect in accordance with the Tax Act to have each of its Canadian securities treated as capital property.

This summary is based on the facts set out in this prospectus, the current provisions of the Tax Act and the regulations thereunder, counsel’s understanding of the current published administrative and assessing practices of the Canada Revenue Agency and all specific proposals to amend the Tax Act and regulations thereunder publicly announced by the Minister of Finance (Canada) prior to the date hereof (such proposals referred to hereafter as the “Tax Proposals”). This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations.

This summary is not applicable to Holders an interest in which would be a tax shelter investment for the purposes of the Tax Act. This summary does not deal with the mark-to-market rules in the Tax Act and Holders that are “financial institutions” as defined in the Tax Act for purposes of these rules should consult their own tax advisors.

This summary is not exhaustive of all possible Canadian federal tax considerations applicable to an investment in Preferred Shares and, in particular, does not describe income tax considerations relating to the deductibility of interest on money borrowed to acquire Preferred Shares. Moreover, the income and other tax consequences of acquiring, holding or disposing of Preferred Shares will vary depending on the investor’s particular circumstances including the province or provinces in which the investor resides or carries on business. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any investor.

Investors should consult their own tax advisors for advice with respect to the income tax consequences of an investment in Preferred Shares, based on their particular circumstances.

Status of the Company

This summary is based on the assumptions that the Company will qualify at all times as a “mutual fund corporation” within the meaning of the Tax Act and that the Company will elect under the Tax Act to be a public corporation from the date it was established. To so qualify, the Company must be a “public corporation”, the sole undertaking of the Company must, in general, be the investing of its funds in property (other than real property or interests in real property), and the Preferred Shares must be redeemable at the demand of the Holders of those shares. If the Company were to fail to qualify as a mutual fund corporation, the income tax considerations described below would in some respects be materially different.

Tax Treatment of the Company

Dividends

Dividends received by the Company on shares in the Common Share Portfolio will be included in its income but will be deductible in computing its taxable income. The Company will generally be liable to pay a 33 $\frac{1}{3}$ % refundable tax under Part IV of the Tax Act on the amount by which such dividends received by it on shares in the Common Share Portfolio exceed the Company’s non-capital losses claimed in a year. However, any Part IV tax that is paid will be fully refunded to the Company on the payment by the Company of sufficient taxable dividends (other than capital gains dividends as defined below) in the year or in subsequent taxation years, in accordance with the provisions of the Tax Act in that regard.

As the Company will be a “financial intermediary corporation” as defined in the Tax Act, it will not be subject to tax under Part VI.1 of the Tax Act on dividends that it pays on the Preferred Shares.

Capital Gains

The Company has advised counsel that it intends to elect in accordance with the Tax Act to have each of its “Canadian securities” (as defined in subsection 39(6) of the Tax Act) treated as capital property. Such an election will result in the treatment of gains or losses realized by the Company on the sale of “Canadian securities” as capital gains or capital losses.

The Company will not realize income, gain or loss as a result of entering into the Forward Agreement. If the Company elects physical settlement under the Forward Agreement and thereupon delivers securities and receives a payment from the Counterparty equal to the price stipulated in the Forward Agreement, the resulting gain or loss realized by the Company will be a capital gain or loss. If the Company elects cash settlement under the Forward Agreement, the resulting gain or loss to the Company may be on capital or income account depending on the relevant facts and circumstances. The Manager has advised counsel that, on the basis of the information currently available to it, the Manager expects that the Company will elect physical settlement of the Forward Agreement.

As a mutual fund corporation, the Company will be entitled in certain circumstances to a refund of tax paid by it in respect of its net realized capital gains. Also, as a mutual fund corporation, the Company will maintain a capital gains dividend account in respect of capital gains realized by the Company and from which it may elect to pay dividends (“capital gains dividends”) which will be treated as capital gains in the hands of the shareholders of the Company. See below under “Tax Treatment of Holders of Preferred Shares — Distributions”.

Other Income

To the extent that the Company earns income other than taxable capital gains and dividends on shares within the Common Share Portfolio, the Company will be required to include such amounts in income in accordance with the rules of the Tax Act.

Issue and Other Expenses

The Company will be entitled to deduct an amount equal to the reasonable expenses that it incurs in the course of issuing the Preferred Shares. Such issue expenses, including the Agents' fees, will be deductible by the Company ratably over a five-year period subject to reduction in any taxation year which is less than 365 days. Generally, the Company will also be entitled to deduct administrative expenses and interest payable by it on money borrowed to purchase the Common Share Portfolio. Any non-capital losses incurred by the Company may generally be carried forward or back in accordance with the rules and limitations contained in the Tax Act and deducted in computing the taxable income of the Company. Tax Proposals released, for public comment, on October 31, 2003 may deny losses realized in a year in respect of a business or property if in the year it is not reasonable to expect that the taxpayer will realize a cumulative profit from that business or property for the period in which the taxpayer has carried on, and can reasonably be expected to carry on, that business or has held, and can reasonably be expected to hold, that property. If this Tax Proposal applied to the Company, losses in respect of a business or property of the Company could be denied.

Net Tax Liability

As a result of the deductions and refunds of tax described above, it is not anticipated that the Company will be subject to any material net Canadian tax liability.

Tax Treatment of Holders of Preferred Shares

Distributions

Dividends other than capital gains dividends ("Ordinary Dividends") received by a Holder will be included in computing the Holder's income. In the case of a Holder that is an individual, Ordinary Dividends will be subject to the gross-up and dividend tax credit rules under the Tax Act normally applicable to taxable dividends received from a taxable Canadian corporation.

In the case of a Holder that is a specified financial institution, Ordinary Dividends received on Preferred Shares will be deductible in computing its taxable income only if either:

- (a) the specified financial institution did not acquire the Preferred shares in the ordinary course of its business, or
- (b) at the time of the receipt of the dividends by the specified financial institution, dividends are received in respect of not more than 10% of the issued and outstanding Preferred Shares by
 - (i) the specified financial institution, or
 - (ii) the specified financial institution and persons with whom it does not deal at arm's length (within the meaning of the Tax Act).

For these purposes, a beneficiary of a trust will be deemed to receive the amount of any dividend received by the trust and designated to that beneficiary, effective at the time the dividend was received by the trust, and a member of a partnership will be considered to have received that partner's share of a dividend received by the partnership, effective at the time the dividend was received by the partnership.

Ordinary Dividends on Preferred Shares will generally be subject to a 10% tax under Part IV.1 of the Tax Act when such dividends are received by a corporation (other than a "private corporation" or a "financial intermediary corporation", as defined in the Tax Act) to the extent that such dividends are deductible in computing the corporation's taxable income.

A Holder which is a private corporation for purposes of the Tax Act, or any other corporation controlled directly or indirectly by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) may be liable to pay a 33 $\frac{1}{3}$ % refundable tax under Part IV of the Tax Act on Ordinary Dividends received on Preferred Shares, to the extent that such dividends are deductible in computing the corporation's taxable income. Where Part IV.1 tax also applies to an Ordinary Dividend received by a particular corporation on the Preferred Shares, the rate of Part IV tax payable by such corporation on such dividend is reduced to 23 $\frac{1}{3}$ %.

The amount of any capital gains dividend received by a Holder from the Company on a Preferred Share will be considered to be a capital gain of the Holder from the disposition of capital property in the taxation year of the shareholder in which the capital gains dividend is received.

Holders of Preferred Shares are generally not expected to receive dividends other than capital gains dividends.

The amount of any payment received by a Holder from the Company on a Preferred Share as a return of capital will not be required to be included in computing income. Instead such amount will reduce the adjusted cost base of such share to the Holder. To the extent that the adjusted cost base to the Holder would otherwise be a negative amount, the Holder will be considered to have realized a capital gain at that time equal to that negative amount.

Dispositions

Upon the redemption, retraction or other disposition of a Preferred Share, a capital gain (or a capital loss) will be realized to the extent that the proceeds of disposition of such share exceed (or are less than) the aggregate of the Holder's adjusted cost base of such share and any reasonable costs of disposition.

Where the Holder is a corporation, a trust of which a corporation is a beneficiary or a partnership of which a corporation is a member, in certain circumstances the amount of any capital loss otherwise determined may be reduced by the amount of Ordinary Dividends previously received on the Preferred Share. These rules may also apply where a trust or partnership is a member of a partnership or a beneficiary of a trust that owns Preferred Shares.

The adjusted cost base to a Holder of a Preferred Share will be determined by averaging the cost of the Preferred Shares acquired by the Holder at a particular time with the adjusted cost base to the Holder of any Preferred Shares already held by the Holder as capital property.

One-half of any capital gain (a taxable capital gain) will be required to be included in computing the Holder's income and one-half of any capital loss (an allowable capital loss) may be deducted from taxable capital gains realized by the Holder in the year of disposition. Allowable capital losses in excess of taxable capital gains may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years to the extent and under the circumstances described in the Tax Act.

A taxable gain realized by an individual, and certain trusts, may give rise to a liability for alternative minimum tax.

A Holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable for an additional refundable tax of 6²/₃% on investment income for the year, which is defined to include taxable capital gains.

UNITED STATES WITHHOLDING TAX CONSIDERATIONS

In connection with the purchase of the Credit-Linked Note by the Credit Trust, HSBC, the Credit Trust, the Agents and the Counterparty will receive from Clifford Chance US LLP, special U.S. tax counsel to HSBC ("Special U.S. Tax Counsel") an opinion (the "CLN Tax Opinion") generally to the effect that, based upon the assumptions set forth therein, payments of principal and interest under the Credit Linked Note by HSBC to the Credit Trust will not be subject to withholding imposed pursuant to Section 1441 or 1442 of the Internal Revenue Code of 1986, as amended (the "Code") and will not be subject to backup withholding imposed pursuant to Section 3406 of the Code. In rendering the CLN Tax Opinion, Special U.S. Tax Counsel will assume and rely upon the correctness of all representations contained within documentation executed in connection with the purchase of the Credit Linked Note, and will also make and rely upon certain specific assumptions, including the following: (I) the Counterparty and HSBC are not related parties under applicable provisions of the Code, after taking into account certain rules relating to constructive ownership of stock, (II) the Counterparty will treat the Credit Linked Note as an investment, and not as a loan, for applicable bank regulatory and accounting purposes, and neither the Credit Trust, the Counterparty nor HSBC intends to treat

the Credit Linked Note as an extension of credit on the part of the Counterparty made in the ordinary course of business, (III) as confirmed by HSBC, to the extent the amount of any payments on the Credit Linked Note is determined by reference to a change in value of property held by HSBC, such property will be “actively traded” within the meaning of Section 1092(d) of the Code, and (IV) the Counterparty will comply with certain certification requirements under the Code.

In rendering the CLN Tax Opinion, Special U.S. Tax Counsel will rely upon the correctness of the assumptions described above, and will also rely upon the correctness of representations made by the Counterparty to HSBC, including its representation that the units of the Credit Trust will not constitute an extension of credit made by the Counterparty in the ordinary course of business and will not be treated by the Counterparty as a loan for any applicable bank regulatory and accounting purposes. Special U.S. Tax Counsel will not undertake an independent investigation of the accuracy of the assumptions and representations upon which the CLN Tax Opinion is based. Moreover, the CLN Tax Opinion will be based upon the Code, U.S. Treasury Regulations and interpretations thereof as of the date it is rendered, which can be modified retroactively so as to adversely affect or supercede the conclusions set forth in the CLN Tax Opinion. In addition, the CLN Tax Opinion is not binding on the U.S. Internal Revenue Service or the U.S. courts, which may hold contrary to the conclusions stated therein. Hence, the CLN Tax Opinion does not provide assurance that no U.S. withholding taxes will be imposed upon payments made under the Credit Linked Note.

The CLN Tax Opinion addresses only certain aspects of U.S. federal income tax law, and Special U.S. Tax Counsel has not rendered an opinion with respect to any other aspect of this transaction. Without limiting the foregoing, Special U.S. Tax Counsel has not addressed, and is not qualified to address, the treatment of any aspect of this transaction or the sufficiency of the disclosure herein under the laws of Canada or any province thereof.

ELIGIBILITY FOR INVESTMENT

In the opinion of Osler, Hoskin & Harcourt LLP, counsel to the Company, and Stikeman Elliott LLP, counsel to the Agents, provided that the Preferred Shares are listed on a prescribed stock exchange (which includes the Toronto Stock Exchange), they will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans. Provided that the Company complies with the Investment Guidelines, the Preferred Shares will not constitute “foreign property” for purposes of the tax imposed under Part XI of the Tax Act.

USE OF PROCEEDS

The Company will use the proceeds from the sale of Preferred Shares as follows:

	Maximum Offering	Minimum Offering
Gross proceeds to the Company	\$100,000,000	\$35,000,000
Agents’ Fees	\$ (3,000,000)	\$(1,050,000)
Expense of issue	\$ (960,000)	\$ (860,000)
Net proceeds to the Company	\$ 96,040,000	\$33,090,000

The Company will use the net proceeds of the Offering to provide exposure to the economic return generated by the Credit-Linked Note held by the Credit Trust through the Forward Agreement. The net proceeds of the Offering will be used to fund the acquisition of the Common Share Portfolio which will be subject to the Forward Agreement.

PLAN OF DISTRIBUTION

Pursuant to an agency agreement (the “Agency Agreement”) among Scotia Capital Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., TD Securities Inc., Desjardins Securities Inc., Canaccord Capital Corporation, First Associates Investments Inc. and Raymond James Ltd. (collectively, the “Agents”), the Company and the Manager, the Agents have agreed to offer a minimum of 1,400,000 and a maximum of 4,000,000 Preferred Shares for sale as agents of the Company, on a best efforts basis, if, as and when issued by the Company, in accordance with the terms and conditions of the Agency Agreement. Preferred Shares will be offered at a price of \$25.00 per Preferred Share. The Agents will receive a fee equal to \$0.75 for each Preferred Share sold and will be reimbursed for reasonable out-of pocket expenses incurred by them. The Agents may form a sub-agency group including other qualified investment dealers and determine the fee payable to the members of such group, which fee will be paid by the Agents out of their fees. While the Agents have agreed to use their best efforts to sell Preferred Shares offered hereby, the Agents will not be obligated to purchase Preferred Shares which are not sold. The Agents are not permitted to offer or sell the Preferred Shares in the United States or to U.S. persons. Under the Agency Agreement, the Agents have agreed that they will not offer or sell the Preferred Shares in the United States or to U.S. Persons.

Proceeds from subscriptions will be held by the Agents in trust in a segregated account until the closing of the Offering. Under the terms of the Agency Agreement, the Agents may, at their discretion on the basis of their assessment of the state of the financial markets and upon the occurrence of certain stated events, terminate the Agency Agreement. The Credit Trust has agreed to obtain a receipt for a prospectus of the Credit Trust from the Autorité des marchés financiers prior to the purchase of Preferred Shares by any persons in Québec.

Subscriptions for Preferred Shares will be received subject to rejection or allotment in whole or in part. The decision to accept or reject the subscription will be made promptly, and in any event within two days of receipt of the subscription. In the event that a subscription is rejected, all monies received with the subscription will be refunded immediately. The right is reserved to close the subscription books at any time without notice. The closing of the Offering will take place on or about June 2, 2004 or such later date as may be agreed on by the Company and the Agents that is on or before July 29, 2004.

If subscriptions for a minimum of 1,400,000 Preferred Shares have not been received within 90 days following the date of issuance of a final receipt for this prospectus, this offering may not continue without the consent of the Canadian securities regulators and those who have subscribed for Preferred Shares on or before such date. In the event the minimum offering is not achieved by the Company and the necessary consents are not obtained or if the closing of the offering does not occur for any reason, subscription proceeds received from prospective purchasers will be returned to such purchasers promptly without interest or deduction.

The Toronto Stock Exchange has conditionally approved the listing of the Preferred Shares, subject to the fulfillment by the Company of the requirement of such stock exchange by August 18, 2004, including distribution to a minimum number of Holders.

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

The Company may be considered a connected issuer of Scotia Capital Inc. See “Interest of Management and Others in Material Transactions”.

CAPITALIZATION

The capitalization of the Company at May 27, 2004 and at such date as adjusted to give effect to the issue and sale of the Preferred Shares offered hereby, is set forth in the table below:

	Authorized	Outstanding as at May 27, 2004	To be outstanding as at May 27, 2004 after giving effect to the issue ⁽²⁾
			(unaudited)
Liabilities			
Preferred Shares	Unlimited	Nil	\$100,000,000 (4,000,000 shares)
Share Capital			
Class A Shares	Unlimited	\$100 ⁽¹⁾ (100 shares)	\$ 100 (100 shares)
Issue Costs		<u>Nil</u>	<u>\$ (3,960,000)</u>
Total Capitalization		<u>\$100</u>	<u>\$ 96,040,100</u>

Notes:

- (1) The Company does not have any retained earnings or contributed surplus as at May 27, 2004.
- (2) Assumes the maximum amount of the offering.

PRINCIPAL SHAREHOLDER

All of the issued and outstanding Class A Shares of the Company are owned by a trust established for the benefit of Holders of Preferred Shares from time to time. The trustees of such trust will be John Wood and Joseph Wright. The Class A Shares will be held in escrow by Computershare pursuant to an agreement dated on or prior to the date of closing (the “Escrow Agreement”) between such trust, Computershare and the Company and will not be disposed of or dealt with in any manner until all the Preferred Shares have been redeemed or are no longer outstanding, without the express consent, order or direction in writing of the Ontario Securities Commission.

FEES AND EXPENSES

Initial Fees and Expenses

The expenses of 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 are estimated to be approximately \$960,000 in the aggregate, will be paid out of the gross proceeds of the Offering. In addition, the Agents’ fee will be paid to the Agents from the gross proceeds of the Offering as described under “Plan of Distribution”.

Ongoing Fees and Expenses

The Manager will coordinate the organization of the Company and the Credit Trust and will manage the on-going business and administrative affairs of the Company and the Credit Trust.

The aggregate of the ongoing annual fees and expenses to be directly and indirectly borne by the Company is expected to be less than 1.25% of NAV. These fees and expenses consist of (i) annual management fees of 0.35% of NAV; (ii) fees payable under the Forward Agreement of approximately 0.55% of the net asset value of the Credit Trust, plus a fee related to share borrow costs incurred by the Counterparty which in the first year is expected to be 0.15% of the market value of the Common Share Portfolio; and (iii) ongoing expenses in connection with operation and administration. If the fees and expenses described above exceed 1.25% of NAV 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”).

No fees are payable to HSBC under the Credit-Linked Note. Any benefit realized by HSBC in connection with the issuance of the Credit-Linked Note is priced into the coupon paid on the Credit-Linked Note.

Management Fees

The breakdown of the management fees described above between the Company and the Credit Trust is as follows:

As compensation for management services rendered to the Company, the Manager is entitled to receive an annual management fee in an amount equal to 0.25% per annum of the NAV, 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 the Credit Trust, the Manager is entitled to receive an annual management fee in an amount equal to 0.10% of the net asset value of the Credit Trust calculated and payable monthly in arrears, plus applicable taxes.

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

On-Going Expenses

The Company will pay to the Counterparty a fee under the Forward Agreement of approximately 0.55% per annum of the net asset value of the Credit Trust, plus a fee related to share borrow costs incurred by the Counterparty (which is initially expected to be approximately 0.15% of the market value of the Common Share Portfolio) which may vary based on the value of the Common Share Portfolio, calculated and payable quarterly in arrears. The fee which may vary is intended to compensate the Counterparty for the costs of hedging its exposure under the Forward Agreement, if it chooses to do so, and will equal the fees that would be charged to the Counterparty for borrowing securities matching the securities in the Common Share Portfolio. The fees related to share borrow costs incurred by the Company may be offset by fees earned by the company from securities lending arrangements. See “Investment Guidelines of the Company — Securities Lending”.

Each of the Company and the Credit Trust will also pay for all expenses incurred in connection with its operation and administration. It is expected that these expenses will include, without limitation: mailing and printing expenses for periodic reports to Holders; fees payable to the trustee for acting as trustee of the Credit Trust; 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; on-going regulatory filing fees and other fees; any reasonable out-of-pocket expenses incurred by the Manager or its agents in connection with their on-going obligations to the Company or the Credit Trust; expenses relating to portfolio transactions; and any expenditures which may be incurred upon the termination of the Credit Trust. The Manager estimates that administration and operating costs for the Company and the Credit Trust will be approximately \$145,000 and \$15,000, respectively, per annum. A small amount of additional administration and operating costs may arise as a result of the establishment of both the Company and the Credit Trust. Each of the Company and the Credit Trust will also be responsible for its other costs of portfolio transactions and any extraordinary expenses which may be incurred from time to time.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The Manager will receive the fees described under “Fees and Expenses” for its services to the Company and the Credit Trust and will be reimbursed by the Company and the Credit Trust for all expenses incurred in connection with such services. The Manager is a promoter of the Company.

In accordance with the requirements of the provincial securities regulatory authorities in connection with the Offering, the Manager has undertaken to file insider trading reports, as if the Company was not a mutual fund corporation, in accordance with applicable securities legislation, for itself and to cause its affiliates, its directors and senior officers and the directors and senior officers of its affiliates who might ordinarily receive knowledge of material facts or changes with respect to the Company prior to the general disclosure of such facts and changes to file insider trading reports, as if the Company was not a mutual fund corporation, in accordance with applicable securities legislation in respect of trades made by them in Preferred Shares. The foregoing undertakings shall remain in full force until such time as all the Preferred Shares have been redeemed.

Scotia Capital Inc. (“Scotia Capital”) is an Agent (as defined below) of the Offering. The Company will have exposure to the economic return of the Credit-Linked Note by virtue of the Forward Agreement. Scotia Capital is also an affiliate of the Counterparty. Scotia Capital may, as agent, purchase on behalf of the Company, the securities in the Common Share Portfolio and is entitled to receive commissions in respect of such purchases.

RISK FACTORS

There are certain risks associated with an investment in Preferred Shares. Investors should consider the following risk factors before subscribing for Preferred Shares:

No Assurance of Achieving Investment Objectives

There is no assurance that the Company will be able to achieve its capital repayment objective or its distribution objective. The ability of the Company to repay capital, make distribution payments and fund expenses and other liabilities will depend, among other things, on the performance of the Credit-Linked Note which is subject to the risks described below and elsewhere in this prospectus. As a consequence of entering into the Forward Agreement, the Company will forgo the benefits of any increase in the value of the Common Share Portfolio.

No Guaranteed Rate of Return

There is no guarantee that the Credit-Linked Note held by the Credit Trust will earn any return or that the Company will be in a position on the Redemption Date to return to investors an amount equal to or in excess of the original subscription price of the Preferred Shares (\$25.00 per Preferred Share). An investment in the Company is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment and who can withstand the effect of the stated return not being met in any period.

Fluctuations in Net Asset Value

The NAV and the funds available for distribution and redemption by the Company will vary according to, among other things, the rate of default among Reference Companies in the CLN Portfolio, interest rates, credit spreads, the overall performance of the debt markets, the value of the Credit-Linked Note held by the Credit Trust, and the value of the units of the Credit Trust held by the Counterparty. See “Investment Guidelines of the Company” and “Investment Guidelines of the Credit Trust”. Fluctuations in the value of the Credit-Linked Note may occur for a number of reasons beyond the control of the Investment Advisor.

Preferred Shares may trade in the market at a premium or discount to the NAV per Preferred Share and there can be no assurance that Preferred Shares will trade at a price equal to the NAV per Preferred Share. As Holders are entitled to receive fixed cumulative quarterly distributions, the market price of Preferred Shares may be affected by the level of interest rates prevailing from time to time.

Counterparty Risk

The Company will enter into the Forward Agreement with the Counterparty pursuant to which the Company will be required to deliver to the Counterparty on the Redemption Date the Common Share Portfolio in exchange for a cash payment in an amount equal to the redemption proceeds for a corresponding number of units of the Credit Trust. In entering into the Forward Agreement, the Company will be exposed to the credit risk associated with the Counterparty. Depending on the value of the Common Share Portfolio, the Company's exposure to the credit risk of the Counterparty may be significant. In addition, the possibility exists that the Counterparty, or any guarantor of the obligations of the Counterparty pursuant to the Forward Agreement, will default on its payment obligations under the Forward Agreement or that the proceeds of the Forward Agreement will be used to satisfy other liabilities of the Company, which liabilities could include obligations to third-party creditors in the event the Company has insufficient assets, excluding the proceeds of the Forward Agreement, to pay its liabilities. Holders will have no recourse or rights against the assets of the Credit Trust or the Counterparty in respect of the Forward Agreement or arising out of the Forward Agreement.

In addition, the Company, by virtue of the Forward Agreement, will be exposed to the credit risks associated with HSBC and the Credit Trust. The Credit Trust will invest all of its assets in the Credit-Linked Note which will be issued by HSBC. As a result, changes in the credit rating of HSBC's securities may cause greater fluctuations in the net asset value of the Credit Trust than would otherwise be the case. In addition, the possibility exists that HSBC will default in its payment obligations under the Credit-Linked Note and the Note Repurchase Agreement, and the payment obligations of HSBC thereunder are unsecured. If HSBC, as the issuer of the Credit-Linked Note were to default on its senior debt, the Credit Trust, and by virtue of the Forward Agreement, the Company would have, assuming no recovery, little or no assets to meet its obligations to holders of its securities, including the Preferred Shares.

The Preferred Shares do not represent an interest in, or an obligation of, HSBC or any affiliate thereof. Holders will not have any recourse against HSBC or any affiliate thereof in respect of any payments due to Holders.

Any change in the credit rating of the Counterparty or HSBC may also have an adverse affect on the value of the Preferred Shares.

Note Repurchase Agreement

In the event that the Note Repurchase Agreement is terminated in accordance with its terms, the value of the Preferred Shares may be impaired and the payment of the Preferred Share Retraction Price payable in respect of a retraction of Preferred Shares may be adversely affected or delayed. See "The Credit-Linked Note — Certain Provisions of the Credit-Linked Note — Liquidity of the Credit-Linked Note."

Changes in Credit Rating

There can be no assurance that the Preferred Shares or the Credit-Linked Note will maintain their respective ratings by S&P for any given period of time or that the rating will not be lowered or withdrawn entirely by S&P. A lowering or withdrawal of such ratings may have a negative effect on the market value of the Preferred Shares. The 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, the Credit-Linked Note, the Credit Trust, and the creditworthiness of the Counterparty and HSBC.

There is no assurance that the CLN Portfolio will keep its initial S&P weighted average rating of BBB+ until the Redemption Date as a result of possible changes in the credit ratings of the Reference Companies comprising the CLN Portfolio. In such event, the Investment Advisor will not seek to replace the Reference Companies to maintain the initial S&P weighted average rating of the CLN Portfolio.

A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time. There can be no assurance that any rating will remain for any given period of time or that any rating will not be lowered or withdrawn entirely by a rating agency if in such rating agency's judgment circumstances so warrant.

Risks Related to the CLN Portfolio and the Reference Companies

The rating of the Credit-Linked Note is based primarily on the credit performance of the Reference Companies and on the rating of HSBC. If HSBC determines that a default has occurred in respect of one or more Reference Companies and the market value of certain of such companies' debt obligations, as selected by HSBC, has declined as compared to their par value, the principal value of the CLN Portfolio will be decreased accordingly. If defaults in the CLN Portfolio, net of any amounts recovered in respect of such defaults exceed 3.95%, the principal value of the Credit-Linked Note and the amount payable to the Credit Trust upon maturity of the Credit-Linked Note may be substantially less than the initial principal amount thereof, and, in some cases, may be zero. In addition, interest on the Credit-Linked Note will cease to accrue on the portion of the principal amount of the Credit-Linked Note that has been reduced.

There is no "principal protection", "guaranteed interest" or limit on the amount of the reduction that may be made to the initial principal amount of the Credit-Linked Note. Accordingly, Holders will be exposed, by virtue of the Forward Agreement, to the credit risks of the Reference Companies in the CLN Portfolio and may suffer a loss of their entire initial investment. The Credit Trust may lose some or all of the amount that it invests in the Credit-Linked Note which will affect the return on the Preferred Shares. See "The Credit-Linked Note".

An investment in the Credit-Linked Note may be riskier than a *pro rata* investment in a portfolio of securities of the Reference Companies because, after aggregate losses (net of recoveries) in the CLN Portfolio exceed 3.95% the Credit Trust will be exposed to the full amount of the loss net of recoveries with respect to each defaulted company in the CLN Portfolio in excess of 3.4% of the initial value of the CLN Portfolio, rather than a *pro rata* amount of such loss.

This prospectus does not provide any information with respect to any of the Reference Companies comprising the CLN Portfolio or the likelihood of the occurrence of a default. The credit ratings of such companies' debt obligations are those of S&P's and the Investment Advisor has relied on those credit ratings to select the companies without investigating each Reference Company. Credit ratings are not a recommendation to buy, sell or hold investments, and may be subject to revision or withdrawal at any time by the relevant rating agency. As the occurrence of defaults may result in significant losses to the Company and to Holders, each prospective purchaser is advised to conduct its own investigation and analysis with respect to the above matters. Financial and other information with respect to each Reference Company may be available from publicly available sources, but no representation is made with respect thereto by the Company, the Manager, the Investment Advisor, HSBC or any of their respective affiliates as to the accuracy or completeness of any such information.

Substitution Rights with respect to the CLN Portfolio

Substitution of Reference Companies in the CLN Portfolio is subject to the discretion of the Investment Advisor and can be effected only if certain conditions are satisfied. Substitutions may only be made to the extent that HSBC has determined that the Trading Reserve Account has a value sufficient to offset the Credit-Linked Note's share of any losses in the value of the CLN Portfolio resulting from such substitutions. There can be no assurance that the Investment Advisor will be able to satisfy the conditions required for a substitution to be effective or that the CLN Portfolio, following one or more substitutions, will be less likely to experience defaults.

Indirect Investment

The Company will not have a direct investment or ownership interest in the Credit-Linked Note or the Credit Trust, and HSBC will have no obligations to the Company or the Counterparty. The ability of the Company to make payments on the Preferred Shares in amounts linked to the return on the Credit-Linked Note will depend on a number of factors independent from the performance of the Credit-Linked Note, including the performance by the Counterparty under the Forward Agreement.

No Recourse to Reference Companies in the CLN Portfolio

The obligation to make quarterly distributions and to redeem the Preferred Shares on the Redemption Date in accordance with the terms hereof is an obligation of the Company. Holders will not have, and the Preferred Shares will not represent, any proprietary interest whatsoever in the debt obligations of the Reference

Companies comprising the CLN Portfolio. Accordingly, Holders will have no recourse whatsoever, directly or indirectly, to the Reference Companies to satisfy amounts owing to them.

The Credit Trust will not, by virtue of its investment in the Credit-Linked Note, have a contractual relationship with any Reference Company in the CLN Portfolio and will not have voting or consent rights or any other rights that holders of debt obligations of a Reference Company may have. For example, if a default occurs in respect of a Reference Company, the Credit Trust, unlike a holder of such company's debt obligations, will have no right to challenge or participate in any element of the default. The Credit Trust will not have any rights of set-off against a Reference Company in default. The Credit Trust will not have the benefit of the remedies that would normally be available to a holder of an obligation of a defaulted entity. Consequently, an indirect investment in the Credit-Linked Note may be riskier than a direct investment in the debt obligations of the Reference Companies in the CLN Portfolio.

HSBC may hold debt securities of any or all of the companies in the CLN Portfolio and may have one or more of the rights that a holder of debt securities has, but HSBC is not required to exercise any of such rights for the benefit of the Credit Trust, the Counterparty, the Company or Holders.

Discretion of HSBC

HSBC has sole and absolute discretion to determine the occurrence of a default (also referred to as a credit event) in respect of the CLN Portfolio which can, especially with respect to a credit event caused by a restructuring, involve a high degree of subjective judgment by HSBC. The Credit Trust, as holder of the Credit-Linked Note, may disagree with HSBC's determination, but will nevertheless be bound by that determination.

Following the occurrence of a default with respect to a Reference Company in the CLN Portfolio, HSBC has the sole discretion to select the reference debt obligations that will be used for purposes of calculating any loss amount to be applied to the CLN Portfolio. In doing so, HSBC may select the reference debt obligations that will be most advantageous to HSBC, which selection may result in a lower principal amount of the Credit-Linked Note than would have been the case had HSBC selected different reference debt obligations.

Trading gains and losses in respect of the Trading Reserve Account will be determined by HSBC in its sole and absolute discretion based on its proprietary method. Trading gains and trading losses are notional calculations only and, therefore, may not reflect the actual trading gains to, or actual trading losses suffered by, HSBC with respect to a proposed substitution. Trading gains and losses will be calculated by HSBC in its sole and absolute discretion based on its proprietary valuation methodology. In making any trading gain or trading loss determination, HSBC will have no obligation to take the interests of the Credit Trust, the Counterparty, the Company or Holders into consideration.

Trading and other Transactions by HSBC or its Affiliates in the Securities of the Reference Companies may adversely affect the Value of the Credit-Linked Note

HSBC or any of its affiliates may hedge (or may have hedged) its obligations under the Credit-Linked Note by entering into credit default swaps with respect to any of the Reference Companies included in the CLN Portfolio, purchasing securities of such Reference Companies or options on such companies' securities or executing other derivative instruments with returns linked to or related to changes in the value of such securities. If HSBC or any of its affiliates enters (or has entered) into such hedges, they may adjust the hedges at any time and from time to time, or may close out their hedges, at any time, including on or before the occurrence of a default in respect of one or more of the Reference Companies included in the CLN Portfolio, which may involve sales or purchases of the securities of such companies or options or other derivative instruments on such securities. Any of the above hedging activities may adversely affect the value of the Credit-Linked Note. It is possible that HSBC or any of its affiliates could receive substantial returns from these hedging activities while the value of the Credit-Linked Note may decline.

HSBC or any of its affiliates may also engage in trading in the securities of any of the Reference Companies and other investments relating to the securities of any such companies on a regular basis as part of their general broker-dealer and other businesses, for proprietary accounts, for other accounts under management or to facilitate transactions for customers. Any of these activities could adversely affect the value of the Credit-Linked Note and, in turn, the Preferred Shares.

HSBC or any of its affiliates may also issue or underwrite other securities or financial or derivative instruments with returns linked or related to changes in the value of the Reference Companies. By introducing competing products into the marketplace in this manner, HSBC or any of its affiliates could adversely affect the value of the Credit-Linked Note and, in turn, the Preferred Shares.

HSBC's Business Activities may create Conflicts of Interest and there are Actual and Potential Conflicts of Interest between the Credit Trust, as holder of the Credit-Linked Note, and HSBC

HSBC may engage in business with any of the Reference Companies, deal in the debt obligations and other obligations of the Reference Companies, or make loans or otherwise extend credit to any of the Reference Companies. In each case, HSBC may act as if the Credit-Linked Note did not exist, regardless of whether any such action might have an adverse effect on any of the Reference Companies or the debt obligations of such Reference Companies. In the course of its business, HSBC may have the ability to accelerate payment obligations or call an event of default or take other action that may result in the occurrence of a default (or credit event) in respect of one or more Reference Companies. These activities may present a conflict between HSBC's interests and obligations and the interests of the Credit Trust, as holder of the Credit-Linked Note, the Counterparty, the Company and Holders. Moreover, HSBC may in the future publish research reports on any of the Reference Companies. This research may express opinions or provide recommendations that are inconsistent with purchasing or holding the Credit-Linked Note, and may affect the value of the Credit-Linked Note. HSBC will serve as the calculation agent under the Credit-Linked Note, and in this capacity, HSBC will, among other things, select the dealers, determine the valuation time and obtain quotations, in each case for purposes of determining the recovery amount on the valuation obligation of the Reference Company in respect of which a default or credit event has occurred. Since these determinations by HSBC may affect the amount HSBC will be required to repay on the Credit-Linked Note, HSBC may have a conflict of interest as it makes such determinations.

In addition, HSBC and its affiliates may be in possession of information relating to the Reference Companies or debt obligations of the Reference Companies that is or may be material to an investment in the Credit-Linked Note and that may or may not be publicly available or known to the Credit Trust, and the issuance of the Credit-Linked Note does not create any obligation on the part of HSBC or its affiliates to disclose to the Credit Trust any such information (whether confidential or not).

Treatment of Proceeds of Disposition

In determining its income for tax purposes, the Company will treat gains or losses on the disposition of securities in the Common Share Portfolio under the Forward Agreement as capital gains and losses. The Canada Revenue Agency's practice is not to grant advance income tax rulings on the characterization of items as capital gains or income and no advance income tax ruling has been requested or obtained.

If, contrary to the advice of counsel to the Company and to the Agents or as a result of a change of law, upon physical settlement of the Forward Agreement the character and timing of the gain under the Forward Agreement were other than a capital gain (pursuant to the application of the general anti-avoidance rule or otherwise) on the sale of the securities thereunder, after-tax returns to Holders could be reduced, possibly to an amount less than that which would have been realized by Holders if they had held a direct investment in the Credit-Linked Note, and the Company could be subject to non-refundable income tax from such transactions.

Application of Withholding Taxes

There is no guarantee that United States federal withholding taxes will not be imposed on payments made under the Credit-Linked Note. If any interest payment on the Credit-Linked Note is or becomes subject to United States federal withholding tax, HSBC may determine not to gross up the interest payable to the Credit Trust in all circumstances, and may redeem the Credit-Linked Note prior to the scheduled maturity date, potentially at a price materially less than par. In the event that HSBC redeems the Credit-Linked Note, the Company may, at any time, redeem all of the Preferred Shares at the Preferred Share Redemption Price. See "The Credit-Linked Note — Certain Provisions of the Credit-Linked Note".

Redemption Price for the Credit-Linked Note Redeemed for Tax Reasons or Amounts Payable upon Acceleration of the Credit-Linked Note may be substantially less than the Initial Principal Amount

The Credit-Linked Note may be subject to redemption by HSBC under certain circumstances. In addition, the payment of principal and interest on the Credit-Linked Note may be accelerated following the occurrence of an Event of Default. The amount payable upon an acceleration of the Credit-Linked Note following an Event of Default or on an early redemption of the Credit-Linked Note could be substantially less than the initial principal amount of the Credit-Linked Note and, in some cases, may be zero. See “The Credit-Linked Note — Certain Provisions of the Credit-Linked Note”.

Reliance on Investment Advisor, Manager and Key Personnel

Performance of the Company and the Credit-Linked Note will be dependent on the Manager, which acts as manager of both the Company and the Credit Trust, and the Investment Advisor, which provides investment advisory and portfolio management services in respect of the Credit Trust. In the event that the Manager ceases to be the manager of either or both of the Company and the Credit Trust and/or the Investment Advisor ceases to be the investment advisor of the Credit Trust, the performance of any or all of the Company, the Common Share Portfolio and the Credit-Linked Note may be adversely affected.

Securities Lending

The Company may engage in securities lending as described under “Investment Guidelines of the Company — Securities Lending”. Although the Company will receive collateral for the loans and such collateral is marked-to-market, the Company will be exposed to the risk of loss should the borrower default on its obligation to return the borrowed securities and the collateral is insufficient to reconstitute the portfolio of loaned securities.

Operating History and Marketability of Preferred Shares

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

Changes in Legislation

There can be no assurance that income tax, securities, and other laws will not be changed in a manner which adversely affects the distributions received by the Company or by Holders.

Legal and Statutory Rights

The custodian is in Canada and some of the assets of the Company and the Credit Trust may be held in Canada. The Credit-Linked Note will be registered in the name of HSBC Issuer Services Common Depository Nominee (UK) Limited, as nominee, and will be held in a jurisdiction other than Canada. Accordingly, there may be additional defences available relating to any judgement obtained by the Company or the Credit Trust in Canada which may affect enforcement in such jurisdiction.

Conflicts of Interest

The Manager, its directors and officers and its affiliates and associates may engage in the promotion, management or investment management of any other fund or trust which invests primarily in debt securities.

Although none of the directors or officers of the Manager will devote his or her full time to the business and affairs of the Company, the Credit Trust or the Manager, each will devote as much time as is necessary to supervise the management of (in the case of directors) or to manage (in the case of officers) the business and affairs of the Manager, the Company and the Credit Trust.

The Manager has agreed to pay fees to the Counterparty under the Forward Agreement. As a portion of the fees payable to the Counterparty (related to the share borrow costs incurred by the Counterparty) may vary

with the value of the Common Share Portfolio, the Manager may attempt to substitute securities under or reset the Forward Agreement to minimize such fees. Such transactions could result in the realization of capital gains to the Company, resulting in reduction in the tax deferral of certain distributions paid to Holders.

Foreign Market Exposure

The CLN Portfolio may, at any time, include exposure to the credit risk of the Reference Companies established in jurisdictions outside Canada and the United States. Although most of such companies will be subject to uniform accounting, auditing and financial reporting standards comparable to those applicable to Canadian and U.S. companies, some Reference Companies may not be subject to such standards and, as a result, there may be less publicly available information about such companies than a Canadian or a U.S. company. Volume and liquidity in some foreign markets may be less than in Canada and the United States and, at times, volatility of price may be greater than in Canada or the United States. As a result, the price of such securities may be affected by conditions in the market of the jurisdiction in which the Reference Company is located or its securities are traded. Investments in foreign markets carry the potential exposure to the risk of political upheaval, acts of terrorism and war, all of which could have an adverse impact on the value of such securities.

MATERIAL CONTRACTS

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

- (i) the Management Agreement between the Company and Connor, Clark & Lunn Capital Markets Inc. referred to under “Management of the Company — The Manager”;
- (ii) the Agency Agreement made between the Company, the Manager and the Agents referred to under “Plan of Distribution”;
- (iii) the custodial agreement made between the Company and The Royal Trust Company referred to under “Auditors, Valuation Agent, Transfer Agent, Registrar and Custodian”;
- (iv) the registrar, transfer agency and distribution agency agreement made between the Company and Computershare referred to under “Auditors, Valuation Agent, Transfer Agent, Registrar and Custodian”; and
- (v) the Forward Agreement made between the Company and the Counterparty referred to under “Investment Guidelines of the Company”.

Although the Company is not a party to them, the Credit-Linked Note and the Note Repurchase Agreement between the Credit Trust and HSBC, referred to under “The Credit-Linked Note — Certain Provisions of the Credit-Linked Note” are, by virtue of the Forward Agreement, relevant to the offering 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 1 First Canadian Place, 57th Floor, Toronto, Ontario throughout the Offering period and will be available on www.sedar.com after closing of the Offering.

PROMOTER

The Manager may be considered a promoter of the Company by reason of its initiative in forming and establishing the Company and taking the steps necessary for the public distribution of Preferred Shares. The promoter will not receive any benefits, directly or indirectly, from the issuance of Preferred Shares offered hereunder other than as described under “Fees and Expenses”.

LEGAL MATTERS

Legal matters in connection with the Offering will be passed upon on behalf of the Company and the Manager by Osler, Hoskin & Harcourt LLP and on behalf of the Agents by Stikeman Elliott LLP.

AUDITORS, VALUATION AGENT, TRANSFER AGENT, REGISTRAR AND CUSTODIAN

The auditors of the Company are PricewaterhouseCoopers LLP.

Computershare will act as transfer agent and registrar for the Company at its principal office in Toronto. In addition to performing registrar and transfer agency services, the transfer agent and registrar will provide certain record-keeping, Holder reporting and general administration services pursuant to the registrar, transfer agency and distribution agency agreement to be dated as of the date of closing of the Offering.

The Royal Trust Company, as Valuation Agent, will perform certain valuation services for the Company and will serve as custodian of the assets of the Company pursuant to an agreement to be dated as of the closing of the Offering. However, the custodian will not hold Common Share Portfolio securities or any other securities pledged under any Forward Agreement and will not be responsible for the custody or safekeeping of any such assets pledged to and held by the Forward Agreement counterparty.

PURCHASERS' STATUTORY RIGHTS

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

In addition, the Company has agreed that purchasers in the Province of Québec have the right to withdraw from an agreement to purchase Preferred Shares which may be exercised within two Business Days after receipt or deemed receipt of the prospectus of the Credit Trust. See "Plan of Distribution".

AUDITORS' CONSENT

We have read the prospectus of ROC Pref Corp. (the "Company") dated May 27, 2004 relating to the offering of Preferred Shares of the Company. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the inclusion in the above-mentioned prospectus of our report to the board of directors of the Company on the balance of the Company as at May 27, 2004. Our report is dated May 27, 2004.

Toronto, Ontario
May 27, 2004

(Signed) PRICEWATERHOUSECOOPERS LLP
Chartered Accountants

AUDITORS' REPORT

To the Board of Directors of
ROC PREF CORP.:

We have audited the statement of financial position of ROC Pref Corp. as at May 27, 2004. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

In our opinion, this financial statement presents fairly, in all material respects, the financial position of the Company as at May 27, 2004 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
May 27, 2004

(Signed) PRICEWATERHOUSECOOPERS LLP
Chartered Accountants

ROC PREF CORP.
STATEMENT OF FINANCIAL POSITION
May 27, 2004

	<u>Actual</u>
ASSETS	
Cash	\$ 100
Total	<u>\$ 100</u>
LIABILITIES:	
Preferred Shares	\$ —
SHAREHOLDER'S EQUITY:	
Class A Shares	\$ 100
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u>\$ 100</u>

Approved by the Board:

By: (Signed) JOHN WOOD
Director

By: (Signed) JOSEPH WRIGHT
Director

NOTES

1. ORGANIZATION AND SHARE CAPITAL

ROC Pref Corp. (the “Company”) was incorporated under the laws of the Province of Ontario on April 13, 2004.

The Company is authorized to issue an unlimited number of Preferred Shares and Class A Shares. On April 13, 2004, the Company issued 100 Class A Shares for cash consideration of \$100.

2. AGENCY AGREEMENT AND CUSTODIAN

The Company has engaged Scotia Capital Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., TD Securities Inc., Desjardins Securities Inc., Canaccord Capital Corporation, First Associates Investments Inc. and Raymond James Ltd. as its agents to offer for sale to the public pursuant to a prospectus dated May 27, 2004 the Preferred Shares described in Note 3.

The Company has retained The Royal Trust Company under a Custodian Agreement to act as custodian of the assets of the Company and is also responsible for certain aspects of the Company’s day-to-day operations. In consideration for the services provided by The Royal Trust Company, the Company will pay a fee to be agreed upon between The Royal Trust Company and the Manager.

3. COMMITMENTS

The Company has retained Connor, Clark & Lunn Capital Markets Inc. to act as manager under a Management Agreement. As compensation for management services rendered to the Company, the Manager will receive an annual management fee in an amount equal to 0.35% of the net asset value of the Company, to be calculated and payable monthly in arrears, plus applicable taxes. The Manager is also entitled to an additional one-time management fee payable on the Redemption Date and calculated on the quarterly net asset value of the Company on an effective basis of 0.65% per annum together with any fees and expenses funded by the Manager, on behalf of the Company, 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.

The Company will pay to the Counterparty a fee under the Forward Agreement of approximately 0.55% per annum of the net asset value of a newly created investment trust (the “Credit Trust”) which holds a credit-linked note, plus a fee related to share borrow costs incurred by the Counterparty which in the first year is expected to be approximately 0.15% of the market value of the Common Share Portfolio, calculated and payable quarterly in arrears.

CERTIFICATE OF THE COMPANY AND THE PROMOTER

Dated: May 27, 2004

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 9 of the *Securities Act* (Alberta), Part XI of *The Securities Act, 1988* (Saskatchewan), Part VII of *The Securities Act* (Manitoba), Part XV of the *Securities Act* (Ontario), Section 13 of the *Security Frauds Prevention Act* (New Brunswick), Section 63 of the *Securities Act* (Nova Scotia), Part II of the *Securities Act* (Prince Edward Island) and Part XIV of the *Securities Act* (Newfoundland and Labrador), the *Securities Act* (Yukon), the *Securities Act* (Northwest Territories) and the *Securities Act* (Nunavut) and the respective regulations thereunder. This prospectus does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed, as required by the *Securities Act* (Québec) and the regulations thereunder.

ROC PREF CORP.

By: (Signed) W. NEIL MURDOCH
Chief Executive Officer

By: (Signed) PHILIP K. GOW
Chief Financial Officer

**On behalf of the Board of Directors
of ROC Pref Corp.**

By: (Signed) JOHN WOOD
Director

By: (Signed) JOSEPH WRIGHT
Director

CONNOR, CLARK & LUNN CAPITAL MARKETS INC., as Promoter

By: (Signed) W. NEIL MURDOCH
Chief Executive Officer

CERTIFICATE OF THE AGENTS

Dated: May 27, 2004

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 9 of the *Securities Act* (Alberta), Part XI of *The Securities Act, 1988* (Saskatchewan), Part VII of *The Securities Act* (Manitoba), Part XV of the *Securities Act* (Ontario), Section 13 of the *Security Frauds Prevention Act* (New Brunswick), Section 64 of the *Securities Act* (Nova Scotia), Part II of the *Securities Act* (Prince Edward Island) and Part XIV of the *Securities Act* (Newfoundland and Labrador), the *Securities Act* (Yukon), the *Securities Act* (Northwest Territories) and the *Securities Act* (Nunavut) and the respective regulations thereunder. To the best of our knowledge, this prospectus does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed, as required by the *Securities Act* (Québec) and the regulations thereunder.

SCOTIA CAPITAL INC.

By: (Signed) BRIAN D. MCCHESENEY

BMO NESBITT BURNS INC.

By: (Signed) DAVID R. THOMAS

CIBC WORLD MARKETS INC.

By: (Signed) RONALD W.A. MITCHELL

NATIONAL BANK FINANCIAL INC.

By: (Signed) MICHAEL D. SHUH

TD SECURITIES INC.

By: (Signed) J. DAVID BEATTIE

DESJARDINS SECURITIES INC.

By: (Signed) JEFFREY F. OLIN

CANACCORD CAPITAL CORPORATION

By: (Signed) DOUGLAS A. DOIRON

FIRST ASSOCIATES INVESTMENTS INC.

By: (Signed) CHARLES A.V. PENNOCK

RAYMOND JAMES LTD.

By: (Signed) SARA MINATEL

Connor, Clark & Lunn
CAPITAL MARKETS INC.



Connor, Clark & Lunn
Investment Management Ltd.