

ROC Pref II Corp.

ANNUAL INFORMATION FORM

For the year ended December 31, 2008

TABLE OF CONTENTS

| | | |
|----------|---|-----------|
| 1 | THE COMPANY | 3 |
| 1.1 | NAME AND INCORPORATION | 3 |
| 1.2 | STATUS OF THE COMPANY | 3 |
| 2 | DESCRIPTION OF THE BUSINESS | 3 |
| 2.1 | ISSUE OF PREFERRED SHARES | 3 |
| 2.2 | INVESTMENT OBJECTIVES AND STRATEGY | 3 |
| 2.3 | THE CREDIT LINKED NOTE | 4 |
| 2.4 | INVESTMENTS OF THE COMPANY | 11 |
| 2.5 | STRUCTURE OF THE COMPANY AND CREDIT TRUST II | 14 |
| 2.6 | CREDIT TRUST II | 14 |
| 3 | DESCRIPTION OF SHARE CAPITAL | 15 |
| 3.1 | PREFERRED SHARES | 15 |
| 3.2 | CLASS A SHARES | 18 |
| 3.3 | SHAREHOLDER MATTERS | 18 |
| 4 | METHOD OF VALUATION | 20 |
| 4.1 | AUDIT OF FINANCIAL STATEMENTS | 21 |
| 5 | RESPONSIBILITY FOR OPERATIONS | 21 |
| 5.1 | MANAGEMENT OF THE COMPANY | 21 |
| 5.2 | THE MANAGER | 22 |
| 5.3 | INDEPENDENT REVIEW COMMITTEE | 24 |
| 5.4 | MANAGEMENT OF CREDIT TRUST II | 24 |
| 5.5 | THE INVESTMENT ADVISOR | 26 |
| 5.6 | PORTFOLIO TRANSACTIONS AND BROKERAGE | 28 |
| 5.7 | CUSTODIAN | 28 |
| 5.8 | AUDITORS | 29 |
| 5.9 | REGISTRAR, TRANSFER AGENT AND DISTRIBUTION AGENT | 29 |
| 6 | FEES AND EXPENSES | 29 |
| 6.1 | INITIAL FEES AND EXPENSES | 29 |
| 6.2 | ONGOING FEES AND EXPENSES | 29 |
| 7 | CANADIAN FEDERAL INCOME TAX CONSIDERATIONS | 30 |
| 7.1 | TAXATION OF THE COMPANY | 30 |
| 7.2 | TAXATION OF HOLDERS | 30 |
| 8 | MATERIAL CONTRACTS | 30 |

1 THE COMPANY

1.1 NAME AND INCORPORATION

ROC Pref II Corp. (the “Company”) is a corporation incorporated under the laws of the Province of Ontario on August 23, 2004 and continued under section 187 of the Canada Business Corporations Act on October 4, 2006. The manager of the Company is Connor, Clark & Lunn Capital Markets Inc. (the “Manager”). The Manager was incorporated under the Business Corporations Act (Ontario) on January 15, 2001 and is wholly owned by Connor, Clark & Lunn Capital Markets Partnership. The principal place of business of the Company is 2200 - 1111 West Georgia Street, Vancouver, British Columbia V6E 4M3, and the registered office of the Manager is Suite 300, 181 University Ave., Toronto, Ontario M5H 3M7.

1.2 STATUS OF THE COMPANY

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

2 DESCRIPTION OF THE BUSINESS

2.1 ISSUE OF PREFERRED SHARES

On October 1, 2004, preferred shares of the Company (the “Preferred Shares”) were issued and began trading on the Toronto Stock Exchange. The Company does not continuously distribute its shares and does not intend to issue any further Preferred Shares. The offering is summarized in the following table:

- Issue date: October 1, 2004
- Redemption date: December 31, 2009
- Number of preferred shares issued: 12,000,000
- Par value per preferred share: \$25.00
- Price per preferred share: Issued at par
- Total raised: \$300,000,000
- Expenses of issue: \$10,213,702
- Net amount raised: \$289,786,298
- Trading symbol: RPA.PR.A
- Terms: Retractable at any time, cumulative, will be redeemed at par value on the Redemption Date and otherwise only under specific circumstances as described under “Description of Share Capital – Preferred Shares”
- Distributions: Quarterly fixed cumulative preferential cash distributions of \$0.290625 per preferred share to yield 4.65% on the original issue price of \$25.00

2.2 INVESTMENT OBJECTIVES AND STRATEGY

The Company’s investment objectives are to pay holders of its Preferred Shares an amount per Preferred Share equal to the original subscription price of \$25.00 on or about December 31, 2009 and to pay quarterly, fixed cumulative distributions of \$0.290625 per preferred share to yield 4.65% per annum on the original issue price.

In order to meet its objectives, the Company’s strategy is to maintain exposure, in a tax-efficient manner, to the returns of a credit-linked note (“CLN”). The CLN was issued by HSBC Bank Canada (“HSBC”) on October 1, 2004 matures on December 20, 2009, is currently rated A- by Standard & Poor’s and is structured to provide an enhanced return compared to comparably rated debt securities. The return on the CLN is linked to the performance of a globally diversified, portfolio that consisted of 142 companies (the “Reference Portfolio”) as at December 31, 2008. The Reference Portfolio is actively managed by Connor, Clark & Lunn Investment Management. Please refer to the CLN Portfolio Schedule as of December 31, 2008 for listing of the Reference Portfolio.

In order to provide exposure to the CLN, the Company:

- (i) Purchased a portfolio of the common shares of 12 publicly traded Canadian companies on October 1, 2004 at an aggregate cost of \$289,775,000; and

- (ii) Entered into a forward purchase and sale agreement (the “Forward Agreement”) with the HSBC Bank USA (the “Counterparty”), under which the company agreed to sell the portfolio of common shares on or prior to December 31, 2009 in exchange for the value of Credit Trust II, a vehicle formed to purchase the CLN from HSBC. Sale of the common share portfolio under the Forward Agreement is intended to ensure that preferred shareholders have economic exposure to changes in the value of, and distributions effected by, Credit Trust II. A fee of 0.45% per annum, plus certain hedging costs, calculated with reference to the net asset value of Credit Trust II is payable to Counterparty under the Forward Agreement.

2.3 THE CREDIT LINKED NOTE

Credit Trust II purchased the CLN on October 6, 2004 at par for \$289,775,000. The CLN matures on December 20, 2009, pays a coupon of 6.867% and was rated A- at inception and is currently rated BB- by S&P.

The global credit markets have gone through a crisis that has been unprecedented in many of our lifetimes. The Company has been caught up in this turmoil. During the quarter, the CLN experienced a credit event when Tribune Company declared bankruptcy. The recovery rate on Tribune was exceptionally low at 1.5%, which is equivalent to 1.7 defaults at a 40% recovery rate (the estimated recovery rate the Investment Manager always uses in the default protection level calculations). The impact of the Tribune credit event and its very low recovery rate have lowered the safety cushion for the CLN, but given the short time frame until maturity of the CLN (December 20, 2009) the Investment Manager remains optimistic that the investment objectives will be met. Tribune was the fourth credit event experienced by the Company since its inception. The Quebecor World credit event had a 41.3% recovery rate in early 2008 and the Fannie Mae and Lehman Brothers credit events had recovery rates of 91.5% and 8.6%, respectively in September 2008.

Following these events, the rating of the CLN was downgraded to BBB on November 14, 2008 and to BB on December 22, 2008. The credit rating of the Preferred Shares was also downgraded to P-2 and P-3 respectively. Subsequent to year-end, the CLN and the Preferred Shares were downgraded to BB- and P-3 (low) and remain on CreditWatch with negative implications.

2.3.1 Structure of the Credit Linked Note

The return on the CLN is linked to the number of defaults experienced over the term of the note among the 142 reference companies in the CLN’s Reference Portfolio (after deducting the four defaulted companies). Based on the Reference Portfolio’s credit quality, S&P assigns a minimum level of subordination, which reflects the degree of net losses that a portfolio must be able to absorb without impacting cash flows to shareholders. In order to retain a BB credit rating, the CLN’s required level of subordination was 1.73% on December 31, 2008. The actual level of subordination structured into the CLN was 1.64%. If losses due to cumulative further defaults net of recoveries, including the loss due to the defaults of Quebecor World Inc., Fannie Mae, Lehman Brothers and Tribune Company, do not exceed a total of 1.64% of the initial value of the Reference Portfolio during the term of the CLN, Credit Trust II will receive its full coupon payments and par value on maturity. To the extent that cumulative further defaults exceeded this amount, subsequent coupon payments and the amount that would be paid to Credit Trust II on maturity would decline. To the extent that cumulative losses due to defaults, net of recoveries, exceeded 2.54% there would be no amount paid to Credit Trust II and the value of the Preferred Shares would decline to the level of net current assets per share, possibly zero.

The CLN features an embedded trading reserve account, initially in an amount of \$2,567,010, which stood at \$2,781,090 on December 31, 2008. The trading reserve account is available to absorb net losses that might be incurred when the Investment Manager makes substitutions in the Reference Portfolio. The trading reserve account can also be used to purchase additional subordination from HSBC. At December 31, 2008 the trading reserve account would have purchased an additional 0.05% of subordination, bringing total percentage loss that could have been absorbed in the Reference Portfolio without affecting payments of interest or principal to 1.69%. The amount of additional subordination that can be purchased using the trading reserve account will vary in response to changing market conditions. Losses of 1.69% due to defaults net of recoveries (using an estimated historical recovery rate of 40 %) would represent approximately 5.2 times the average level of defaults experienced among a mix of credits comparable to that of the Reference Portfolio in any one year period over the 25 year period ending in 2007. The subordination levels indicated above reflect the realized recovery rate on the Tribune Company credit event, which was determined subsequent to the period under review.

During the year ended December 31, 2008, the Company redeemed 1,690,007 Preferred Shares for a total cost of \$22,461,167, or an average of \$13.29 per Preferred Share (21,600 Preferred Shares for a total cost of \$484,884 during the year ended December 31, 2007). As a result, the principal amount of the CLN is currently \$248,971,500.

2.3.2 Credit quality of the Reference Portfolio

Risk in the CLN is mainly a function of Reference Portfolio credit quality and time to maturity. As the CLN ages, the risk of default for companies with a given rating decreases. Balanced against that time benefit is the fact that credit ratings have historically moved lower over time. The composition of the Reference Portfolio is designed with the objective that the CLN will maintain its initial rating as these two effects act on the portfolio. Changes in credit quality as it is measured by the market can be seen through changes in the average credit spread of the Reference Portfolio. A good indication of the performance of the Reference Portfolio is the movement in credit spread of the Reference Portfolio versus that of a corresponding index. Lower credit spread indicates less risk. The index that best corresponds to the Reference Portfolio is the Dow Jones CDX North America Investment Grade 3 Index:

| | December 31, 2005 | December 31, 2006 | December 31, 2007 | December 31, 2008 |
|----------------------------|----------------------|----------------------|----------------------|----------------------|
| Dow Jones IG 3 index | 77.36 | 44.06 | 127.64 | 428.59 |
| Reference Portfolio spread | 53.06 | 55.84 | 141.64 | 552.12 |

Changes in the overall credit quality of the Reference Portfolio as measured by the credit ratings of its constituents may affect the rating of the CLN and of the Preferred Shares, which in turn may affect the trading price. The following table describes the Reference Portfolio's ratings characteristics on December 31, 2004, 2005, 2006, 2007 and 2008:

| Exposure to Issuers | | | | | | Exposure to Issuers | | | | | |
|-----------------------|------|------|------|------|------|-----------------------------|------------|------------|------------|------------|------------|
| Rating ⁽¹⁾ | 2004 | 2005 | 2006 | 2007 | 2008 | Rating ⁽¹⁾ | 2004 | 2005 | 2006 | 2007 | 2008 |
| AAA | 3 | 3 | 4 | 4 | 2 | BB+ | 0 | 3 | 3.5 | 1.5 | 3.5 |
| AA+ | 0 | 0 | 0 | 0 | 2 | BB | 1 | 2 | 4.5 | 2.5 | 3 |
| AA | 3 | 3 | 4 | 9 | 2 | BB- | 0 | 1 | 1 | 2 | 3 |
| AA- | 2 | 6 | 8 | 9 | 7 | B+ | 0 | 0 | 1 | 3.5 | 2.5 |
| A+ | 17 | 19 | 16 | 13 | 13 | B | 0 | 0 | 1 | 2 | 0 |
| A | 26 | 24 | 21.5 | 16.5 | 18.5 | B- | 0 | 0 | 0 | 1 | 1.5 |
| A- | 24 | 23 | 25.5 | 26 | 28 | CCC+ | 0 | 0 | 0 | 1 | 1 |
| BBB+ | 27 | 30 | 23 | 27 | 20 | SD ⁽³⁾ | 0 | 0 | 0 | 0 | 1 |
| BBB | 23 | 21 | 24 | 14 | 20 | D | 0 | 0 | 0 | 0 | 4 |
| BBB- | 13 | 5 | 3 | 8 | 8 | N/R | 1 | 0 | 0 | 0 | 0 |
| | | | | | | Total ⁽²⁾ | 140 | 140 | 140 | 140 | 140 |

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

⁽²⁾ 142 reference companies are included in the CLN's Reference Portfolio. Four companies are included at half-weights, resulting in a total exposure to 140 issuers.

⁽³⁾ An 'SD' rating is assigned when Standard & Poor's believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. This is not considered a default for the purposes of the CLN. As of January 2009 S&P changed the rating of General Motors Acceptance Corporation from SD to CCC.

As described above, S&P's rating anticipates deterioration in the average credit rating of the companies in the Reference Portfolio over time, reflecting the fact that credit ratings tend to migrate lower over time. Over the one year period, as a result of ratings changes and trading activity, the Reference Portfolio experienced 14 reference company upgrades averaging 3.07 rating categories, or notches, per upgrade for a total of 43 notch increases and 74.5 reference company downgrades averaging 2.0 notches per downgrade for a total 149 notch decreases. The companies in the Reference Portfolio are listed in the Supplementary Financial Information as at December 31, 2008.

2.3.3 CLN Portfolio

The following are the names, S&P ratings, industries and countries of origin of the Reference Companies that are included in the CLN Portfolio (the “CLN Portfolio”).

CLN Portfolio (Reference Portfolio) as at December 31, 2008 (Unaudited):

| Entity Description | SP Rating | Industry | Country |
|--------------------------------------|-----------|--------------------------------------|-------------|
| 3I Group Plc | A | Brokers, Dealers & Investment houses | Britain |
| Accor | BBB | Lodging & casinos | France |
| Alcan Inc. | BBB | Nonferrous metals/minerals | Canada |
| Allstate Corp. | A+ | Insurance | USA |
| Alltel Corporation | B+ | Telecommunications | USA |
| Altria Group Inc. | BBB | Beverage & Tobacco | USA |
| Ambac Financial Group Inc. | BBB | Insurance | USA |
| American Standard Inc | AA- | Industrial equipment | USA |
| Amgen Inc. | A+ | Drugs | USA |
| Anglo American Plc | A- | Nonferrous metals/minerals | Britain |
| Anheuser-Busch Companies Inc | BBB+ | Beverage & Tobacco | USA |
| Aon Corporation | BBB+ | Insurance | USA |
| Atlantia SPA | A | Surface transport | Italy |
| Bank of America Corp. | A+ | Financial intermediaries | USA |
| Barclays Bank Plc | A+ | Financial intermediaries | Britain |
| Barrick Gold Corporation | A- | Nonferrous metals/minerals | Canada |
| Bayer Aktiengesellschaft | A- | Chemicals & plastics | Germany |
| Bear Stearns Companies Inc. | AA- | Brokers, Dealers & Investment houses | USA |
| Bhp Billiton Ltd. | A+ | Nonferrous metals/minerals | Australia |
| Bombardier Inc. | BB+ | Aerospace & Defence | Canada |
| Borgwarner Inc. | A- | Automotive | USA |
| British American Tobacco Plc | BBB+ | Beverage & Tobacco | Britain |
| Brookfield Asset Management | A- | Building & Development | Canada |
| Cameco Corporation | BBB+ | Nonferrous metals/minerals | Canada |
| Cargill Incorporated | A | Farming/agriculture | USA |
| Carrefour SA | A | Food/drug retailers | France |
| Caterpillar Financial Services Corp. | A | Industrial equipment | USA |
| Centex Corporation | BB- | Building & Development | USA |
| Centurytel Inc. | BBB- | Telecommunications | USA |
| Cingular Wireless LLC | A | Telecommunications | USA |
| Cit Group Inc. | A- | Financial intermediaries | USA |
| Citigroup Inc. | A | Financial intermediaries | USA |
| Coca-Cola Enterprises Inc. | A | Beverage & Tobacco | USA |
| Comcast Cable Communications Inc. | BBB+ | Cable & satellite television | USA |
| Compass Group Plc | BBB+ | Food service | Britain |
| Computer Sciences Corporation | A- | Electronics/electrical | USA |
| Constellation Energy Group Inc. | BBB | Utilities | USA |
| Countrywide Home Loans Inc. | A+ | Financial intermediaries | USA |
| Credit Suisse Group | A | Financial intermediaries | Switzerland |
| Daimlerchrysler AG | A- | Automotive | Germany |
| Deutsche Bank Aktiengesellschaft | A+ | Financial intermediaries | Germany |
| Deutsche Lufthansa AG | BBB | Air transport | Germany |
| Deutsche Telekom AG | BBB+ | Telecommunications | Germany |
| Domtar Inc. | BB | Forest products | Canada |
| Dte Energy Co. | BBB | Utilities | USA |
| Duke Capital LLC | BBB+ | Utilities | USA |
| Emi Group Plc | B+ | Leisure goods/activities/movies | Britain |
| Enbridge Inc. | A- | Utilities | Canada |
| Encana Corporation | A- | Oil & gas | Canada |
| Erac Usa Finance Company | BBB | Equipment leasing | USA |

CLN Portfolio (Reference Portfolio) as at December 31, 2008 (Unaudited):

| Entity Description | SP Rating | Industry | Country |
|---|------------------|--------------------------------------|----------------|
| European Aeronautic Defense And Space Company Eads NV | BBB+ | Aerospace & Defence | Netherlands |
| Exelon Generation Co. LLC | BBB | Utilities | USA |
| Federal National Mortgage Association | D | U.S. Agency | USA |
| Financial Security Assurance Inc. | AAA | Insurance | USA |
| Ford Motor Credit Company | CCC+ | Automotive | USA |
| France Telecom | A- | Telecommunications | France |
| Gannett Co. Inc. | BBB- | Publishing | USA |
| General Electric Capital Corporation | AAA | Conglomerates | USA |
| General Motors Acceptance Corporation (*) | SD | Automotive | USA |
| Hannover Rueckversicherungs-AG | AA- | Insurance | Germany |
| Hellenic Telecommunications Organiz SA | BBB | Telecommunications | Greece |
| Hutchison Whampoa Limited | A- | Conglomerates | Hong Kong |
| Idearc Inc. | B- | Telecommunications | USA |
| ING Bank NV | AA | Financial intermediaries | Netherlands |
| International Business Machines Corporation | A+ | Electronics/electrical | USA |
| International Lease Finance Corporation | A- | Equipment leasing | USA |
| Israel Electric Corp Ltd | BBB+ | Utilities | Israel |
| J.P. Morgan Chase & Co. | A+ | Financial intermediaries | USA |
| Kimco Realty Corp. | A- | REITs and REOCs | USA |
| Kinder Morgan Energy Partners LP | BBB | Utilities | USA |
| Korea Electric Power Corporation | A | Utilities | South Korea |
| Korea Telecom | A- | Telecommunications | South Korea |
| Lehman Brothers Holdings Inc. | D | Financial intermediaries | USA |
| Loews Corporation | A | Conglomerates | USA |
| Macys Incorporated | BBB- | Retailers (except food & drug) | USA |
| Marriott International Inc. | BBB | Lodging & casinos | USA |
| MBIA Inc. | A- | Insurance | USA |
| Meadwestvaco Corporation | BBB | Forest products | USA |
| Merck & Co. Inc. | AA- | Drugs | USA |
| Merrill Lynch & Co. Inc. | A+ | Financial intermediaries | USA |
| MGIC Investment Corporation | BB+ | Insurance | USA |
| Morgan Stanley | A | Brokers, Dealers & Investment houses | USA |
| Motorola Inc. | BB+ | Telecommunications | USA |
| MTR Corporation Ltd | AA+ | Rail industries | Hong Kong |
| Muenchener Rueckversicherungs-Gesellschaft AG | A | Insurance | Germany |
| Nabors Industries Inc. | BBB+ | Oil & gas | USA |
| Newell Rubbermaid Inc. | BBB+ | Home furnishings | USA |
| Norbord Inc. | BB- | Forest products | Canada |
| Nordstrom Inc. | A- | Retailers | USA |
| Novartis AG | AA- | Drugs | Switzerland |
| Odyssey Re Holdings Corp. | BBB- | Insurance | USA |
| Omnicom Group Inc. | A- | Business equipment & services | USA |
| Pccw - Hkt Telephone Limited | BBB | Telecommunications | Hong Kong |
| Petroliam Nasional Berhad | A- | Oil & gas | Malaysia |
| Pitney Bowes Credit Corporation | A | Business equipment & services | USA |
| Placer Dome Inc. | A- | Nonferrous metals/minerals | Canada |
| Prologis | BBB- | REITs and REOCs | USA |
| Qantas Airways Limited | BBB+ | Air transport | Australia |
| Quebecor World Inc. | D | Publishing | Canada |
| Radioshack Corporation | BB | Retailers (except food & drug) | USA |
| Reuters Group Plc | A- | Business equipment & services | Britain |
| Sabre Holdings Corporation | B+ | Business equipment & services | USA |
| Sara Lee Corp. | BBB+ | Food products | USA |
| Schering-Plough Corporation | A- | Drugs | USA |

CLN Portfolio (Reference Portfolio) as at December 31, 2008 (Unaudited):

| Entity Description | SP Rating | Industry | Country |
|---|-----------|--------------------------------------|-------------|
| Scor | A- | Insurance | France |
| Sealed Air Corp. | BBB- | Containers & glass products | USA |
| Sherwin-Williams Company | A- | Chemicals & plastics | USA |
| Siemens Aktiengesellschaft | AA- | Conglomerates | Germany |
| Simon Property Group LP | A- | REITs and REOCs | USA |
| SLM Corporation | BBB- | Financial intermediaries | USA |
| Sodexo Alliance SA | BBB+ | Food service | France |
| Southwest Airlines Co. | BBB+ | Air transport | USA |
| Takefuji Corporation | BBB- | Financial intermediaries | Japan |
| Target Corporation | A+ | Retailers (except food & drug) | USA |
| Telecom Italia Spa | BBB | Telecommunications | Italy |
| Telus Corporation | BBB+ | Telecommunications | Canada |
| Textron Financial Corporation | BBB | Financial intermediaries | USA |
| The Dow Chemical Company | BBB | Chemicals & plastics | USA |
| The Export-Import Bank Of Korea | A | Uncorrelated (Corporate) | South Korea |
| The Goldman Sachs Group Inc. | A | Brokers, Dealers & Investment houses | USA |
| The Royal Bank Of Scotland Public Limited Company | A | Financial intermediaries | Britain |
| The Ryland Group Inc. | BB- | Building & Development | USA |
| Time Warner Inc. | BBB+ | Leisure goods/activities/movies | USA |
| Transalta Corp. | BBB | Utilities | Canada |
| Transocean Inc. | BBB+ | Oil & gas | USA |
| Tribune Company | D | Publishing | USA |
| TXU Corporation | B- | Utilities | USA |
| Tyson Foods Inc. | BB | Food products | USA |
| Unilever N.V. | A+ | Food products | Netherlands |
| UST Inc. | A | Beverage & Tobacco | USA |
| Verizon Communications Inc | A | Telecommunications | USA |
| Viacom Inc. | BBB | Radio & Television | USA |
| Vodafone Group Plc | A- | Telecommunications | Germany |
| Volkswagen Aktiengesellschaft | A- | Automotive | Germany |
| Wal-Mart Stores Inc. | AA | Retailers | USA |
| Wells Fargo & Company | AA+ | Financial intermediaries | USA |
| Windstream | BB+ | Telecommunications | USA |
| Wolters Kluwer NV | BBB+ | Publishing | Netherlands |
| WPP Group Plc | BBB | Business equipment & services | Britain |
| Wyeth | A+ | Drugs | USA |
| XL Capital Ltd | A- | Insurance | Bermuda |
| Zurich Insurance Company | AA- | Insurance | Switzerland |

(*) An 'SD' rating is assigned when Standard & Poor's believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. This is not considered a default for the purposes of the CLN. As of January 2009 S&P changed the rating of General Motors Acceptance Corporation from SD to CCC.

2.3.4 Substitutions in the CLN Portfolio

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

The Investment Manager made 38 substitutions in the Reference Portfolio from October 1, 2004 (commencement of operations)

to December 31, 2008.

2.3.5 Valuation of the CLN

The CLN is valued on the 10th and last business day of each month by HSBC. CLN value reflects the amount that HSBC is willing to pay in order to discharge its obligations under the CLN and is based on HSBC's proprietary assumptions concerning current and future market conditions and events. Factors affecting the value of the CLN include the market's assessment of overall credit quality of the Reference Portfolio as measured by the trading price of the debt (and derivatives thereof) of companies in the Reference Portfolio, interest rates as measured by the Canadian dollar swap rate to the date of maturity of the note, the value of the trading reserve account and other factors, such as correlation, that are proprietary to HSBC. At December 31, 2008, the CLN value was \$104.352 million, down from \$279.960 million on December 31, 2007.

2.3.6 Payments on the Credit Linked Note

The Credit Linked Note has been structured to pay interest at a rate of 6.867%, for a total of approximately \$19.9 million per annum, payable quarterly, on the outstanding principal amount. Interest is paid on the 20th of March, June, September and December of each year.

HSBC will repay the principal amount of the Credit Linked Note outstanding on December 20, 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 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 "Events of Default" below for a description of events which constitute a default.

2.3.7 Events of Default

The repayment of principal of, and payment of interest on, the Credit Linked Note may be accelerated following the occurrence of one or more of the following events of default (each an "Event of Default"): (i) a default in the payment of interest in respect of the Credit Linked Note which continues for a period of 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 Credit Trust II, (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 Credit Linked Note less any reduction to the principal as a result of net losses to the CLN Portfolio which exceed 3.43% of the initial value.

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

2.3.8 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 judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, which (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an

order for its winding-up or liquidation or (ii) is not dismissed, discharged, stayed or restrained in each case within 30 calendar days of the institution or presentation thereof; (e) has a resolution passed for its winding-up or liquidation; (f) seeks or becomes subject to the appointment of a receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (g) has a secured party take possession of all or substantially all its assets or has a distress, execution or other legal process enforced against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 calendar days thereafter; or (h) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (a) to (g) (inclusive).

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

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

In addition, with respect to Reference Companies that are Middle Eastern, additional events of default apply.

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: (i) if there is a protocol or other market standard agreement for determining the recovery amount published by the International Swaps and Derivatives Association, use the price determined by such protocol; or (ii) 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 II, 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 3.43% of the initial value of the CLN Portfolio.

2.3.9 Liquidity of the Credit Linked Note

HSBC has entered into an agreement (the “Note Repurchase Agreement”) with Credit Trust II pursuant to which HSBC has agreed to repurchase all or a portion of the Credit Linked Note once a month in the event that Preferred Shares are retracted at any time. Upon receipt of retraction notices with respect to the Preferred Shares, Credit Trust II 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 \$75,000, and any amount in excess thereof must be in increments of \$5,000. 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 Credit Trust II at the end of the month immediately preceding the repurchase, less (a) the present value of 0.60% per annum of the outstanding principal amount of the Credit Linked Notes being repurchased, if such outstanding principal amount is less than or equal to \$5,000,000, or (b) the present value of 0.75% per annum of the outstanding principal amount of the Credit Linked Note being repurchased on such repurchase date (each calculated for the period from the date of such repurchase to the scheduled maturity date of the Credit Linked Note). The repurchase obligation of HSBC under the Note Repurchase Agreement may be suspended during the occurrence and continuance of a Force Majeure Event and will resume immediately upon the termination of such event.

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

The Note Repurchase Agreement and each pending repurchase of all or a portion of the Credit Linked Note thereunder will terminate upon the occurrence of any of the following events: (a) Credit Trust II 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 Credit Trust II 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 Credit Trust II, 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.

2.3.10 HSBC Bank Canada

HSBC Bank Canada is a wholly owned subsidiary of HSBC Holdings plc. HSBC Group is one of the world’s largest banking and financial services organizations.

2.4 INVESTMENTS OF THE COMPANY

2.4.1 Investment Restrictions of the Company

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

- (i) **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. The Company will not acquire an investment that is “taxable Canadian property” to the Company for the purposes 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– 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.

Except as set forth hereunder, the Company will not invest in any other securities or assets.

2.4.2 Forward Agreement

On October 1, 2004, the Company entered into the Forward Agreement. The Forward Agreement 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 Credit Trust II to holders of a corresponding number of units of Credit Trust II in exchange for the Common Share Portfolio. Amounts paid by Credit Trust II to its unitholders will be funded by the proceeds received on the maturity of the Credit Linked Note held by Credit Trust II, by coupon payments made by the Credit Linked Note, and with any cash or cash equivalents held by Credit Trust II or interest earned on such cash or cash equivalents. Such amounts will be paid by the Credit Trust II after satisfying its liabilities, if any.

Under the terms of the Forward Agreement, the Company and the Counterparty have agreed that their settlement obligations 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 Credit Trust II. 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 a portion 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 Common Share Portfolio, invest the proceeds from such disposition 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) 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 (ii) 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 Credit Trust II. The Counterparty may hedge its exposure under the Forward Agreement to the economic performance of Credit Trust II. There is no assurance that the Counterparty will maintain a hedge or will do so with respect to the full amount or term of the Forward Agreement. The 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, or any guarantor thereof, must be rated at least A by S&P (the “Approved Rating”). If the long-term debt of the Counterparty or its guarantor is no longer so rated, the Company may replace the Counterparty with a counterparty with long-term debt rated at the Approved Rating.

HSBC Canada has no obligations under, and is not 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 not be involved in the pricing or valuation of the Credit Linked Note.

2.4.3 Exemptions

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

- (a) section 2.1(1) – to permit the Company to enter into and maintain a position in the Forward Agreement for which the payment obligations of the Counterparty will be determined by reference to the performance of Credit Trust II;
- (b) subsection 2.4(2) and (3) – to permit the Company’s exposure under the Forward Agreement (and any replacement or assignment of the agreement) to exceed the limitation related to investment in illiquid assets, provided that the mark-to-market exposure to the Counterparty under the Forward Agreement (and any replacement or assignment of that agreement). For a period of 60 days or more, shall not exceed 30 percent of assets of the Company;
- (c) section 2.5(2)(a) and (c) – to permit the Company to enter into and maintain a position in the Forward Agreement for which the payment obligations of the Counterparty will be determined by reference to the performance of Credit Trust II, in order to provide the Company with exposure to the Credit Linked Note;
- (d) subclause 2.6(a)(ii) – to permit the Company to provide a security interest in its portfolio assets to the Counterparty in connection with the Forward Agreement and any replacement or assignment of that agreement, in accordance with industry practice with respect to this type of transaction;
- (e) subclause 2.7(1)(a) – to permit the Company to enter into the Forward Agreement (and any replacement or assignment of that agreement) that has a remaining term to maturity of greater than five years on the condition that the Company does not and will not enter into any other specified derivative transaction that does not satisfy the requirement of subclause 2.7(1)(a);
- (f) subsection 2.7(4) – to exempt the Company from the prescribed exposure limit under the Forward Agreement (and any replacement or assignment of that agreement), provided that the mark-to-market exposure to the Counterparty under the Forward Agreement (and any replacement or assignment of that agreement) shall not exceed, for a period of 60 days or more, 30 percent of the net assets of the Company;
- (g) section 3.3 – so that the organizational costs and expenses of the initial public offering could be borne by the Company;
- (h) section 10.3 – to permit the Company to calculate the retraction price of the Preferred Shares in accordance with their terms, following the surrender of Preferred Shares for retraction;
- (i) section 10.4 – to permit the Company to pay the retraction price of the Preferred Shares on the Retraction Payment Date;
- (j) section 12.1 – to relieve the Company from the requirement to file the prescribed compliance report;

- (k) clause 13.1(b) – to permit the Company to calculate its net asset value and publish its net asset value twice a month provided the final prospectus discloses
 - i. that the net asset value calculation is available to the public upon request, and
 - ii. a website that the public can access for this purpose; and
- (l) section 14.1 – to relieve the Company from the requirement related to the record date for payment of dividends or other distributions of the Company, provided that it complies with the applicable requirements of the TSX.

2.5 STRUCTURE OF THE COMPANY AND CREDIT TRUST II

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

Diagram 1

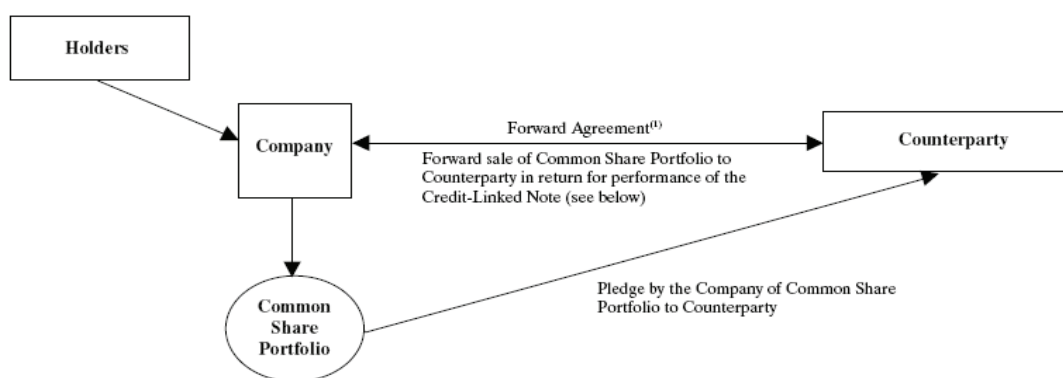
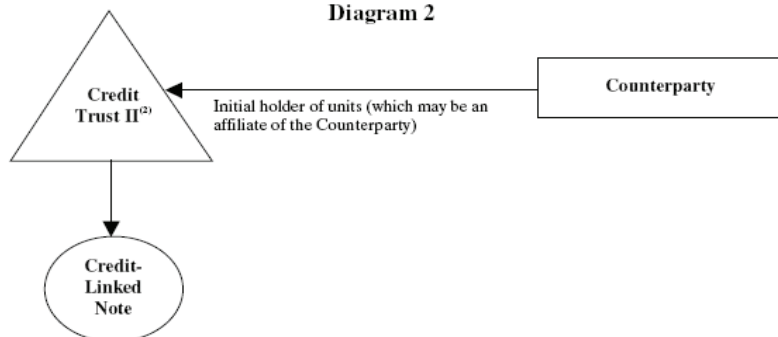


Diagram 2



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

(2) See "Credit Trust II".

2.6 CREDIT TRUST II

Credit Trust II was established under the laws of Ontario pursuant to a trust agreement dated September 24, 2004 (the "Trust Agreement") between the Manager and RBC Dexia Investor Services Trust, as trustee. The holder of units of Credit Trust II is the Counterparty.

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

in respect of foreign taxes paid by it (if any).

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

Credit Trust II will terminate on the Redemption Date if not terminated earlier in accordance with its terms. On termination, Credit Trust II will pay to unitholders the net proceeds of the amounts received on maturity of the Credit Linked Note together with any other assets, after payment or satisfaction of all liabilities of Credit Trust II. Any amendment to the Trust Agreement which would have an adverse effect on the ability of Credit Trust II 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 Credit Trust II and has appointed the Investment Advisor as investment advisor to Credit Trust II to construct the CLN Portfolio and actively manage the Reference Companies in the CLN Portfolio to which the return on the Credit Linked Note is linked in order to mitigate the risks associated with such portfolio pursuant to an investment advisory agreement (the “Credit Trust II Investment Advisory Agreement”) between Credit Trust II and the Investment Advisor. See “Investment Advisor — The Credit Trust II Investment Advisory Agreement”.

2.6.1 Investment Guidelines of Credit Trust

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

- (i) **Investments.** Credit Trust II will invest in the Credit Linked Note. Credit Trust II may also invest a portion of its assets in cash, cash equivalents or other evidences of indebtedness. Such instruments must be (a) rated 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.** Credit Trust II will invest in securities denominated in Canadian dollars only.
- (iii) **Foreign Issuers.** Credit Trust II will not invest in securities of any foreign issuer if distributions to Credit Trust II from such issuer would be subject to any foreign taxes or foreign withholding taxes that would not be recoverable by it or in respect of which it would not be entitled to receive a compensatory “gross-up” payment.

3 DESCRIPTION OF SHARE CAPITAL

The Company is authorized to issue an unlimited number of Preferred Shares and Class A Shares. 100 Class A Shares and 12,000,000 Preferred Shares were issued and outstanding. During the year ended December 31, 2008, 1,690,007 units were redeemed.

3.1 PREFERRED SHARES

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

3.1.1 Distributions

Holders are entitled to receive quarterly fixed cumulative preferential cash distributions of \$0.290625 per Preferred Share on the last Business Day of March, June, September and December in each year (each, a “Distribution Payment Date”). On an annualized basis, this would represent a yield on the \$25.00 original offering price of the Preferred Shares of 4.65%.

During the year ended December 31, 2008, the Company met its targeted quarterly distribution and paid total distributions of \$13,407,336, or \$1.1625 per unit (\$0.290625 per quarter), representing return of capital to holders of Preferred Shares (\$13,943,721, or \$1.1625 per unit for the year ended December 31, 2007???)

Preferred Share future distributions are expected to keep consisting primarily of returns of capital (which are generally not subject to tax upon receipt, but which would reduce the adjusted cost base of the Holder’s Preferred Shares), and may include capital gains dividends. See “Canadian Federal Income Tax Considerations”.

3.1.2 Retraction

Preferred Shares may be surrendered at any time for retraction to Computershare Investor Services Inc. (“Computershare”), the Company’s registrar and transfer agent, but will be retracted only on the last day of the month (a “Valuation Date”). 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”.

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.

3.1.3 Resale of Preferred Shares Tendered for Retraction

The Company has entered 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.

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.

3.1.4 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 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 Deferred Management Fees or any expenses previously funded by the Manager on behalf of the Company (other than expenses funded by the Manager from that portion of its annual management fee not included in the Deferred Management Fee). Notice of redemption will be given to CDS Participants holding Preferred Shares on behalf of the beneficial owners thereof at least 30 days prior the Redemption Date.

The Company will also be entitled to redeem all of the Preferred Shares prior to the Redemption Date at the Preferred Share

Redemption Price upon an acceleration of the Credit Linked Note following an Event of Default or otherwise. See “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.

3.1.5 Rating of the Preferred Shares

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

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

3.1.6 Priority

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

3.1.7 Voting Rights

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

3.1.8 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.

3.1.9 Book-Entry Only System

Registration of interests in and transfers of the Preferred Shares will be made through the book-entry only system. 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. References in this annual information form to a holder of Preferred Shares means, unless the context otherwise requires, the owner of the beneficial interest in such securities.

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

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

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

Any Retraction Notice which CDS determines to be incomplete, not in proper form or not duly executed shall for all purposes be void and of no effect and the retraction privilege to which it relates shall be considered for all purposes not to have been exercised thereby. A failure by a CDS Participant to exercise retraction privileges or to give effect to the settlement thereof in accordance with the owner's instructions will not give rise to any obligations or liability on the part of the Company to the CDS Participant or to the owner.

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

3.2 CLASS A SHARES

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

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

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

3.3 SHAREHOLDER MATTERS

3.3.1 Meetings of Holders

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

3.3.2 Acts Requiring Holder Approval

The following matters require the approval of the Holders by a two-thirds majority vote (other than items (c), (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 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 debt securities or shares ranking prior to the Preferred Shares;
- (h) a liquidation, dissolution or winding-up of the Company prior to the Redemption Date or a consolidation, merger or sale of all or substantially all of its assets;
- (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 Holders becoming securityholders 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; and
- (k) an amendment, modification or variation in the provisions or rights attaching to the Preferred Shares or Class A Shares if such change would materially adversely affect the rights attaching to the Preferred Shares.

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

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

3.3.3 Information and Reports to Holders

The Company furnishes to Shareholders interim unaudited and annual audited financial statements, accompanied by management reports of fund performance of the affairs and operations of the Company and Credit Trust II 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 Credit Trust II will include a statement of investments of Credit Trust II. 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.

4 METHOD OF VALUATION

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

The total assets of the Company consist of the aggregate value of the 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 Credit Trust II, the Company's net asset value ("NAV") is linked to the value of the Credit Linked Note. The value of the Credit Linked Note is determined by the Manager using a price indication provided by HSBC and such other information as the Manager deems relevant. See "The Credit Linked Note— Valuation of the CLN".

The Manager will notify the Valuation Agent of any adjustments in the holdings of either the Company or Credit Trust II. 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.

The total assets of the Company and Credit Trust II 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 Credit Trust II are being determined, all as reported by any means in common use;
- (ii) the value of any cash on hand or on deposit, prepaid expenses, cash dividends received (or declared to Holders of record on a date before the NAV Valuation Date as of which the NAV and the net asset value of Credit Trust II 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 Credit Trust II, the value of the Credit Linked Note will be determined in the manner described under "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 is calculated twice a month by the Valuation Agent. Such information will be provided by the Manager to Holders on request. The Manager also posts the NAV on its website (www.cclcapitalmarkets.com) twice a month.

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

4.1 AUDIT OF FINANCIAL STATEMENTS

The annual financial statements of the Company 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.

5 RESPONSIBILITY FOR OPERATIONS

5.1 MANAGEMENT OF THE COMPANY

5.1.1 Directors and Officers

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

| Name and Municipality | Position with the Manager | Principal Occupation |
|---|---|---|
| W. Neil Murdoch Oakville, Ontario | Director, President, Chief Director, President and Chief Executive Officer and Chairman | Director, President, Chief Director, President and Chief Executive Officer and Chairman, Connor, Clark & Lunn Capital Markets Inc. |
| Philip K. Gow Lunenburg, Nova Scotia | Vice President | Corporate Director |
| Frank Santangeli* Toronto, Ontario | Director | Corporate Director |
| Selwyn Kletz* Toronto, Ontario | Director | Corporate Director |

* Members of the Audit Committee

Directors of the Company, other than nominees of the Manager, receive remuneration for their services as directors. The Board of Directors’ fees paid during the year ended December 31, 2008 were \$20,543 (\$20,550 during the year ended December 31, 2007). 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”.

Frank Santangeli has worked in the financial services industry since 1960. Positions he has held include Vice President of Sunlife of Canada, President and Chief Executive Officer of Finsco Investment Management Corporation, and Vice President of

Imasco Financial Corporation. He has also served as Chairman of The Investment Funds Institute of Canada.

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

5.2 THE MANAGER

Connor, Clark & Lunn Capital Markets Inc. performs management services for the Company pursuant to a management agreement (the “Management Agreement”) dated September 24, 2004. The Manager is 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., Connor, Clark & Lunn Arrowstreet Capital Ltd, Connor, Clark & Lunn Infrastructure Ltd, Banyan Capital Partners Management Partnership and Global Alpha Capital Management Ltd. (collectively, the “CC&L Group”). The CC&L Group offers professional management of financial assets for pension plan sponsors, capital accumulation plans, corporations, foundations, mutual funds and individual investors.

5.2.1 Duties and Services to be provided by the Manager

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

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

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

A report of the Independent Committee, which summarizes special recommendations or reports made, if any, by the Independent

Committee will be included in each of the annual reports provided to Holders.

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

5.2.2 *Accounting and Reporting*

The Company’s has elected calendar year (December 31st) as fiscal year end. The Manager will ensure that the Company complies with all applicable reporting and administrative requirements.

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

5.2.3 *Officers and Directors of the Manager*

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

| Name and Municipality | Position with the Manager | Principal Occupation |
|---|---|--|
| W. Neil Murdoch Oakville, Ontario | Director, President and Chief Executive Officer | Director, President and Chief Executive Officer, Connor, Clark & Lunn Capital Markets Inc. |
| Philip K. Gow Lunenburg, Nova Scotia | Vice-President | Corporate Director |
| Michael W. Freund Toronto, Ontario | Director and Chairman | Managing Partner, Connor, Clark & Lunn Financial Group |
| Darren N. Cabral Toronto, Ontario | Vice-President | Vice-President, Connor, Clark & Lunn Capital Markets Inc. |

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

Philip K. Gow: CFA; BA, Dalhousie University; MBA, Saint Mary’s University. Mr. Gow has been an officer of Connor, Clark & Lunn Capital Markets Inc. since April 2001.

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

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

5.2.4 *Management Agreement*

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

The Manager may resign as manager of the Company upon 60 days' notice to the Holders and the Company or upon such lesser notice period as the Company may accept. If the Manager resigns it may appoint its successor but, unless its successor is an affiliate of the Manager, its successor must be approved by Holders. If the Manager is in material default of its obligations under the Management Agreement and such default has not been cured within 20 Business Days (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 willful misconduct, bad faith or negligence.

5.2.5 Conflict of Interest — Manager

The services of the Manager and its officers and directors are not exclusive to the Company. The Manager or any of its affiliates and associates may, at any time, engage in the promotion, management or investment management of any other entity which invests primarily in the same securities as comprise the 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.

5.3 INDEPENDENT REVIEW COMMITTEE

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

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

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

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

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

5.4 MANAGEMENT OF CREDIT TRUST II

5.4.1 The Manager

Connor, Clark & Lunn Capital Markets Inc. performs management services for Credit Trust II pursuant to the Trust Agreement. The Manager is entitled to receive fees as compensation for management services rendered to Credit Trust II. See "Fees and

Expenses”. The Manager is responsible for payment of the investment management fees of the Investment Advisor related to Credit Trust II.

5.4.2 Duties and Services to be provided by the Manager

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

5.4.3 Credit Trust II 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”.

5.4.4 Advisory Board

Credit Trust II established an advisory board (the “Advisory Board”) currently consisting of at least two members appointed by the Manager each of whom is independent of the Manager, the Investment Advisor, and each of their affiliates, and free from any interest and any business or other relationship which could, or could be reasonably perceived to, materially interfere with an Advisory Board member’s judgment. The Advisory Board provides independent advice to the Manager in order to assist the Manager in performing its services under the Trust Agreement. The Trust Agreement provides that the members of the Advisory Board will act honestly and in good faith in the best interests of Credit Trust II and its unitholders and in connection with that duty will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Manager reports to the Advisory Board on the operation and performance of Credit Trust II on a quarterly basis, including with respect to compliance with the investment objectives, investment strategies and investment restrictions of Credit Trust II and material contracts of Credit Trust II, as amended from time to time.

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

In the event of a dispute between the Advisory Board and the Manager with respect to a conflict of interest, potential conflict of interest or related party transaction, upon written direction of the Advisory Board, the Manager will call a meeting of unitholders of Credit Trust II to consider the conflict of interest, potential conflict of interest or related party transaction.

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

All fees and expenses of the Advisory Board are paid by Credit Trust II, and the regular fees and expenses of the Advisory Board are included in the on-going fees and expenses. See “Fees and Expenses — On-Going Expenses”. The Board of Advisory fees paid during the year ended December 31, 2008 were \$10,376 (\$10,755 during the year ended December 31, 2007). In addition, the Advisory Board will have the authority to retain, at the expense of Credit Trust II, independent counsel or other advisors if Credit Trust II deems it appropriate to do so.

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

5.4.5 *Conflict of Interest — Manager*

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

5.5 **THE INVESTMENT ADVISOR**

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

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

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

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

Mr. Freund was appointed to the Board of the Investment Manager in 2001. Mr. Eby was appointed to the Board of the Investment Manager in 2002. Mr. Cotterill was appointed to the Board of the Investment Manager in 2003. The team of investment professionals responsible for investment management at the Investment Manager all have significant experience in managing investment portfolios. The investment managers of the Investment Manager who will be primarily responsible for

managing the Portfolio are Warren Stoddart and Brian Eby, who will be assisted by Simon McNair and David George.

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

Brian Eby: CFA, MBA, BComm, McMaster University. Mr. Eby is a director of the Investment Manager and a partner of Connor, Clark & Lunn Investment Management Partnership. Mr. Eby is co-head of the fixed income team responsible for fixed income management strategy and research. Mr. Eby has 17 years experience covering three separate recessionary periods. His experience outside portfolio management includes advising in the structuring/restructuring of public debt programs and underwriting of corporate bonds. Prior to joining the CC&L Group in 1998, Mr. Eby held various roles with Scotia Capital Markets Inc. for 10 years, including Director, Fixed Income, and Proprietary Trading.

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

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

5.5.1 Services to be provided by the Investment Advisor

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

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

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

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

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

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

5.5.3 The Credit Trust II Investment Advisory Agreement

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

The Credit Trust II Investment Advisory Agreement will continue in effect unless earlier terminated in accordance with the terms thereof. If the Manager is terminated, the Credit Trust II Investment Advisory Agreement will terminate at such time. The Manager may terminate the Credit Trust II Investment Advisory Agreement if the Investment Advisor has committed certain events of bankruptcy or insolvency, has lost any registration, license or other authorization required to perform its services thereunder or is in material breach or default of the provisions thereof and such material breach or default has not been cured within 20 Business Days after notice thereof has been given to the Investment Advisor by the Manager. Except as described above, the Investment Advisor cannot be terminated as investment manager of Credit Trust II.

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

If the Credit Trust II 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 II Investment Advisory Agreement which would have an adverse effect on the ability of Credit Trust II 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 Credit Trust II, is responsible for the payment of the fees of the Investment Advisor out of its fees.

5.5.4 Conflict of Interest — Investment Advisor

The services of the Investment Advisor and its officers and directors are not exclusive to Credit Trust II or the Manager. The Investment Advisor or any of its affiliates and associates may, at any time, engage in the promotion, management or investment management of any other entity which invests primarily in the same securities as those held by Credit Trust II, and provide similar services to other investment funds and other clients and engage in other activities. Investment decisions for Credit Trust II 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 Credit Trust II and for one or more of its other clients. If Credit Trust II 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.

5.6 PORTFOLIO TRANSACTIONS AND BROKERAGE

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

5.7 CUSTODIAN

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

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

the Company will pay a fee to the Custodian.

5.8 AUDITORS

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

5.9 REGISTRAR, TRANSFER AGENT AND DISTRIBUTION AGENT

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

6 FEES AND EXPENSES

6.1 INITIAL FEES AND EXPENSES

The expenses of the initial public offering of the Preferred Shares (the "Offering") (including the costs of creating and organizing the Company, the costs of printing and preparing the prospectus, legal expenses, marketing and advertising expenses and other reasonable out-of-pocket expenses) incurred by the Company and the Agents and other incidental expenses, which were \$1,213,702, were paid out of the gross proceeds of the Offering. In addition, the Agents' fees, which were \$9,000,000, were paid to the Agents from the gross proceeds of the Offering.

6.2 ONGOING FEES AND EXPENSES

The aggregate of the ongoing annual fees and expenses to be directly and indirectly borne by the Company is expected to be less than 1.00% of NAV. These fees and expenses consist of (i) annual management fees of 0.35% of NAV and; (ii) fees payable under the Forward Agreement of approximately 0.45% of the net asset value of Credit Trust II; and (iii) ongoing expenses in connection with operation and administration. If the fees and expenses described above exceed 1.00% 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 under the Credit Linked Note is priced into the coupon paid on the Credit Linked Note.

6.2.1 Management Fees

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

For the year ended December 31, 2008, the Company incurred an aggregate of \$775,591 (\$1,125,664 for the year ended December 31, 2007) from the Company and the Credit Trust II in management fees due to the manager.

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

6.2.2 On-Going Expenses

The Company pays to the Counterparty a fee under the Forward Agreement of approximately 0.45% per annum of the net asset value of Credit Trust II, calculated and payable quarterly in arrears. Such fee includes any hedging costs incurred by the Counterparty.

Each of the Company and Credit Trust II also pays for all expenses incurred in connection with its operation and administration. These expenses include, without limitation: mailing and printing expenses for periodic reports to Holders; fees payable to the trustee for acting as trustee of Credit Trust II; 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 Credit Trust II; expenses relating to portfolio transactions; and any expenditures which may be incurred upon the termination of Credit Trust II. The administration and operating costs for the Company and Credit Trust II for the year ended December 31, 2008 were \$355,500 and \$46,802, respectively (\$315,402 and \$56,259 for the year ended December 31, 2007). A small amount of additional administration and operating costs may arise as a result of the winding down on termination of both the Company and Credit Trust II. Each of the Company and Credit Trust II will also be responsible for its other costs including of portfolio transactions and any extraordinary expenses which may be incurred from time to time.

7 CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

7.1 TAXATION OF THE COMPANY

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

7.2 TAXATION OF HOLDERS

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

8 MATERIAL CONTRACTS

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

- (i) the Management Agreement between the Company and the Manager 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 RBC Dexia Investor Services (formerly “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 Credit Trust II 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 Holders of the Preferred Shares.

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

[Back Cover]

ROC Pref II. Corp.

Additional information about ROC Pref II Corp. or Credit Trust II is available in the financial statements. You can get copy of the financial statements, including a statement of portfolio transactions, at no charge by contacting the Manager by:

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