

## INFORMATION STATEMENT DATED MARCH 8, 2002

*This Information Statement has been prepared solely for assisting prospective purchasers in making an investment decision with respect to the Notes. This Information Statement is confidential and should not be reproduced or disseminated in whole or in part without the permission of Business Development Bank of Canada. This Information Statement constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale. No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence.*

### Business Development Bank of Canada



### BDC Absolute Return Multi-Strategy ("ARMS")

### Protected Notes Series 2 Enhanced GIC Due 2010

The BDC Absolute Return Multi-Strategy Protected Notes Series 2 Enhanced GIC (the "Notes") issued by the Business Development Bank of Canada (the "Bank" or "BDC") will mature on March 31, 2010 ("Maturity"). The Notes will be issued at a price of \$10 per Note and will be payable on the closing of this offering. The value of the Notes will be linked to the economic performance of the ARMS Series 2 Fund (the "Fund" or the "ARMS Fund"), a fund managed by Lyxor Asset Management S.A. (the "Manager"), a wholly-owned subsidiary of Société Générale. The ARMS Fund is a dedicated fund, the assets of which are allocated (indirectly through an investment in the HRS ARMS Institutional Fund, the "Institutional Fund" or the "HRS ARMS Institutional Fund") among complementary alternative investment strategies under the direction of trading advisors specialized in such strategies ("Trading Advisors"). The Trading Level (being the portion of the Fund's assets invested at any time in the Institutional Fund, expressed as a percentage of the Fund's net asset value) will be adjusted on a regular basis according to the Fund's leverage policy. See "The ARMS Fund – Trading Level/Leverage Policy". HR Strategies Inc. (the "Investment Advisor" or "HR Strategies"), as investment advisor of the Institutional Fund, is responsible for the allocation of the Fund's assets among complementary alternative investment strategies and the selection of Trading Advisors. Through diversification across various investment strategies, the Fund pursues an objective of stable return with low volatility and low correlation to equity and fixed income markets. The Notes may not be redeemed by the Bank prior to Maturity. At Maturity, each holder of Notes (a "Holder") will receive in respect of each Note held by such Holder the Redemption Price, being the greater of (a) \$11.72 (equivalent to a 2% compounded annual yield) and (b) the amount determined by the Redemption Price Formula (as hereinafter defined), such formula being linked to the performance of the ARMS Fund. See "Description of the Notes - Payment at Maturity". No interest will be paid on the Notes, except at Maturity.

**Prospective purchasers should take into account various risk factors associated with this offering.** See "Risk Factors".

**In this Information Statement, "\$" refers to Canadian dollars, unless otherwise expressly specified.**

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**PRICE: \$10 per Note**

No minimum subscription

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**The Notes will constitute direct unconditional obligations of the Bank and as such will constitute direct unconditional obligations of Her Majesty in right of Canada. The Notes will be issued on an unsubordinated basis and will rank *pari passu*, as among themselves, and with all other outstanding direct, unsecured and unsubordinated, present and future obligations (except as otherwise prescribed by law) of the Bank, and will be payable rateably without any preference or priority. The Notes will not be deposits insured under the *Canada Deposit Insurance Corporation Act*. See "Description of the Notes – Rank".**

Under an agreement (the "Agency Agreement") between the Bank and National Bank Financial Inc. (the "Agent"), the Agent has agreed to offer the Notes for sale if, as and when issued by the Bank, in accordance with the terms and conditions contained in the Agency Agreement.

The closing of this offering is scheduled to occur on or about March 26, 2002 (the "Settlement Date"). Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Upon acceptance of a subscription, the Agent will send out or cause to be sent out a confirmation of acceptance by prepaid mail or other means of delivery to the subscriber. See "Plan of Distribution".

A global Note for the full amount of the issue will be issued in registered form to The Canadian Depository for Securities Limited ("CDS") and will be deposited with CDS on the Settlement Date. Subject to a limited exception, certificates evidencing the Notes will not be available to Holders under any circumstances and registration of interests in the Notes will be made only through CDS's book-based system. See "Description of Notes –Book-Based System".

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## ELIGIBILITY FOR INVESTMENT

In the opinion of McCarthy Tétrault LLP, counsel to the Bank and to the Agent, the Notes offered hereby will be, at the date of issue, eligible investments, without resort to the so-called "basket provisions", or their purchase will not be prohibited, in each case subject to general investment provisions, and in certain cases subject to prudent investment requirements and to additional requirements relating to investment or lending policies or goals, under or by the following statutes:

- (i) *Insurance Companies Act* (Canada);
- (ii) *Trust and Loan Companies Act* (Canada);
- (iii) *Pension Benefits Standards Act, 1985* (Canada);
- (iv) *An Act respecting insurance* (Québec) (in respect of insurers, as defined therein, other than guarantee corporations);
- (v) *An Act respecting trust companies and savings companies* (Québec) (in respect of trust companies, as defined therein, investing their own funds and funds received as deposits, and in respect of savings companies, as defined therein, investing their own funds); and
- (vi) *Supplemental Pension Plans Act* (Québec).

In the opinion of such counsel, the Notes offered hereby will, at the date of issue, also be qualified investments under the Federal Act for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans (other than a deferred profit sharing plan under which the Bank or a corporation with which the Bank does not deal at arm's length within the meaning of the Federal Act is an employer) and may be held in such plans subject to the terms of the plans.

Furthermore, in the opinion of such counsel, based on the provisions of the Federal Act, the Notes do not constitute foreign property for the purposes of the Federal Act.

## SUMMARY OF THE OFFERING

*The following is a summary of more detailed information appearing elsewhere in this Information Statement. Capitalized terms not defined in this summary are defined elsewhere in this Information Statement. (See "Definitions"). In this Information Statement, "\$" refers to Canadian dollars, unless otherwise specified.*

<b>Issue:</b>	BDC Absolute <b>R</b> eturn <b>M</b> ulti-Strategy Protected Notes Series 2 Enhanced GIC Due 2010. The Notes are not redeemable before Maturity.
<b>Issuer:</b>	Business Development Bank of Canada.
<b>Issue Price:</b>	\$10 per Note.
<b>Settlement Date:</b>	On or about March 26, 2002.
<b>Maturity Date:</b>	March 31, 2010.
<b>The Fund:</b>	The Fund is a dedicated fund, the assets of which are allocated (indirectly through its investment in the Institutional Fund) among complementary alternative investment strategies under the direction of Trading Advisors specialized in such strategies. Through diversification across complementary alternative investment strategies, the Fund pursues an objective of stable return with low volatility and low correlation to equity and fixed income markets. The Trading Level (being the portion of the Fund's assets invested at any time in the Institutional Fund, expressed as a percentage of the Global NAV), will be adjusted on a regular basis according to the Fund's leverage policy. To the extent that the Trading Level is equal to or exceeds 100%, substantially all of the assets of the Fund will be invested in the Institutional Fund. To the extent that the Trading Level is below 100%, a portion of the assets of the Fund will be invested in money market instruments. The Trading Level may vary from a minimum of 10% to a maximum of 150%, in which latter case the Fund will borrow an amount equal to 50% of its net assets in order to create leverage (see "The ARMS Fund – Trading Level/Leverage Policy"). The Fund will systematically hedge its exposure to the Canadian/US dollar rate by entering into currency forwards and foreign exchange spot transactions.
<b>Investment Advisor:</b>	HR Strategies Inc.
<b>Manager:</b>	Lyxor Asset Management S.A.
<b>Payment at Maturity:</b>	At Maturity, a Holder will receive in respect of each Note held by such Holder the Redemption Price.

**Redemption Price:**

The Redemption Price will be equal to the greater of:

- (a) \$11.72 (equivalent to a 2% compounded annual yield); and
- (b) the amount determined by the Redemption Price Formula.

The Redemption Price Formula is:

$$\$10 \times \left( 1 + 70\% \times \left( \frac{\text{Final NAV} - \text{Initial NAV}}{\text{Initial NAV}} \right) \right)$$

Where the Final NAV means the NAV of the ARMS Fund on the Valuation Date (being the tenth Business Day prior to the Maturity Date) and Initial NAV means \$10.

**Rank:**

The Notes will constitute direct unconditional obligations of the Bank and as such will constitute direct unconditional obligations of Her Majesty in right of Canada. The Notes will be issued on an unsubordinated basis and will rank *pari passu*, as among themselves and with all other outstanding direct, unsecured and unsubordinated, present and future obligations (except as otherwise prescribed by law) of the Bank, and will be payable rateably without any preference or priority. The Notes will not be deposits insured under the *Canada Deposit Insurance Corporation Act*. See "Description of the Notes – Rank".

**Credit Rating:**

The Notes have not been rated by either Dominion Bond Rating Service Limited ("DBRS") or Standard & Poor's or any other agency. As of the date hereof, the obligations of the Bank with a term to maturity in excess of one year in Canadian currency are rated AAA by DBRS and Standard & Poor's. There can be no assurances that, if the Notes were specifically rated by DBRS or Standard & Poor's, they would have the same rating as long-term obligations of the Bank in Canadian currency. A rating is not a recommendation to buy, sell or hold investments, and may be subject to revision or withdrawal at any time by the relevant rating agency.

**Book-Based System:**

The Notes will be evidenced by a single nominative global certificate held by CDS, or on its behalf, as registered holder of the Notes. Registration of the interests in and transfers of the Notes will be made only through the book-based system of CDS. Subject to a limited exception, no Holder will be entitled to any certificate or other instrument from the Bank or CDS evidencing the ownership thereof and no Holder will be shown on the records maintained by CDS except through an agent who is a CDS Participant.

**Eligibility:**

The Notes will be qualified investments under the Federal Act for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans (other than a deferred profit sharing plan under which the Bank or a corporation with which the Bank does not deal at arm's length within the meaning of the Federal Act is an employer) and may be held in such plans subject to the terms of the plans. Based on the provisions of the Federal Act, the Notes do not constitute foreign property for the purposes of the Federal Act. See "Eligibility for Investment".

**Income Tax Considerations:**

A Holder of a Note will be required to include in computing income in a year the interest that accrues to such Holder in respect of the Minimum Return of \$1.72 per Note payable at Maturity (reflecting a 2% compounded annual yield) in accordance with rules set out in the Federal Act. Any portion of the Redemption Price which exceeds the aggregate of the Principal Amount and the amounts required to be included in income for any preceding year in respect of the Minimum Return will be included in the Holder's income, as interest, for the taxation year in which the Maturity Date occurs.

Generally, an amount received by a Holder on a disposition of a Note, other than a disposition resulting from a repayment by the Bank at Maturity, will give rise to a capital gain (or a capital loss) to the extent such amount exceeds (or is less than) such Holder's adjusted cost base. Holders who dispose of a Note within a short period of time prior to the Maturity Date should consult their tax advisors with respect to their particular circumstances. See "Income Tax Considerations".

**Risk Factors:**

Prospective purchasers should take into account various risk factors associated with the ownership of the Notes offered hereunder. See "Risk Factors".

**Fees and Expenses:**

All administrative and accounting expenses of the Fund and of the Institutional Fund will be paid by the Manager; brokerage fees, clearing fees, exchange fees and borrowing costs of the Fund and of the Institutional Fund will be paid by the Fund or the Institutional Fund, as the case may be.

The Fund will pay to the Manager a fee equal to 2.55% per annum of the Global NAV, calculated weekly and payable quarterly in arrears. The Institutional Fund will pay (i) to the Manager, an administration fee equal to 0.5% per annum of the assets invested by the Fund in the Institutional Fund, calculated weekly and payable quarterly in arrears, (ii) to the Investment Advisor, an advisory fee equal to 1% per annum of the assets invested by the Fund in the Institutional Fund, calculated weekly and payable quarterly in arrears, and (iii) to each Trading Advisor, a management fee generally equal to 1% to 2% per annum of the assets under the direction of such Trading Advisor and, in addition, an incentive fee based on the appreciation in value of such assets. See "The ARMS Fund – Fees and Expenses".

All fees and expenses payable by the Fund and the Institutional Fund will, directly or indirectly, be paid from the assets of the Fund and will, therefore, affect the Redemption Price of the Notes by reducing the Global NAV.

**Secondary Market:**

The Agent has agreed to maintain, from September 2002 until Maturity, under normal market conditions, a weekly secondary market for the Notes in which the maximum bid-offer spread will be 1% of the principal amount of the Notes (excluding commissions).

## DEFINITIONS

In this Information Statement, unless the context otherwise requires:

"**Agency Agreement**" means the agreement between the Bank and the Agent relating to the offering of the Notes.

"**Agent**" means National Bank Financial Inc.

"**Bank**" or "**BDC**" means Business Development Bank of Canada.

"**BBS**" means the "book-based system" of securities issuance and registration in which electronic records replace physical certificates; this system was established by CDS pursuant to rules and procedures therefor under agreements and rules establishing and governing the procedures for, among other things, the settlement of securities transactions under such system.

"**Book-Entry System**" means the record entry securities transfer and pledge system established and governed by one or more agreements between CDS and CDS Participants pursuant to which the operating rules and procedures for such system are established and administered by CDS.

"**Business Day**" means any day, other than a Saturday or a Sunday or a day on which commercial banks in Paris, Toronto or Montréal are required or authorized by law to remain closed.

"**CDS Participant**" means a broker, dealer, bank or other financial institution or other person for whom CDS effects book-entry transfers and pledges of Notes under the Book-Entry System.

"**CDS**" means The Canadian Depository for Securities Limited or its nominee.

"**Extraordinary Event**" means a modification to the Fund or the Institutional Fund, such as a winding up or termination, changes to the taxation or rules regulating the Fund or the Institutional Fund, or any other circumstance relating to the Fund or the Institutional Fund which has occurred or is occurring which is out of the control of the Bank and which has, or would reasonably be expected to have, a material adverse effect on the value of the Units.

"**Federal Act**" means the *Income Tax Act* (Canada).

"**Final NAV**" means the NAV on the Valuation Date.

"**Fund**" or "**ARMS Fund**" means the ARMS Series 2 Fund, a fund established under the laws of Jersey, Channel Islands.

"**Global NAV**" means the net asset value of the Fund.

"**Holder**" means a beneficial owner of a Note.

"**Initial NAV**" means \$10.

"**Institutional Fund**" or "**HRS ARMS Institutional Fund**" means the HRS ARMS Institutional Fund, a fund established in Jersey, Channel Islands.

"**Investment Advisor**" or "**HR Strategies**" means HR Strategies Inc.

"**Management Agreement**" means the agreement between the Trustee and the Manager dated October 22, 1998.

"**Manager**" means Lyxor Asset Management S.A., a wholly-owned subsidiary of Société Générale and the manager of the Fund and the Institutional Fund.

"**Maturity**" or "**Maturity Date**" means March 31, 2010.

"**Minimum Return**" means \$1.72 per Note payable at Maturity (equivalent to a 2% compounded annual yield).

"**NAV**" means the net asset value of the ARMS Fund per Unit, in Canadian dollars, being the value per Unit of the assets of the Fund less its liabilities, as calculated from time to time by the Manager.

"**Notes**" means the BDC Absolute Return Multi-Strategy Protected Notes Series 2 Enhanced GIC Due 2010.

"**Prime Broker**" means a registered broker-dealer (which may be Société Générale or one of its affiliates) selected by the Manager and a Trading Advisor to clear and settle all investments made by several other registered broker-dealers.

"**Principal Amount**" means \$10 per Note.

"**Redemption Price**" means the price paid by the Bank to redeem a Note and equal to the greater of:

- (a) \$11.72 (equivalent to a 2% compounded annual yield); and
- (b) the amount determined by the Redemption Price Formula.

"**Redemption Price Formula**" means:

$$\$10 \times \left( 1 + 70\% \times \left( \frac{\text{Final NAV} - \text{Initial NAV}}{\text{Initial NAV}} \right) \right)$$

"**Settlement Date**" means on or about March 26, 2002, or such later date as may be agreed by the Bank and the Agent on which the Notes will be issued.

"**Trading Advisor**" means any trading advisor recommended from time to time by the Investment Advisor and engaged by the Institutional Fund to act as a trading advisor.

"**Trading Level**" means the portion of the Fund's assets invested at any time in the Institutional Fund, expressed as a percentage of the Global NAV.

"**Trust**" means the Lyxor Master Fund, a unit trust established under the laws of Jersey, Channel Islands, by an Instrument of Trust dated October 19, 1998.

"**Trustee**" means SG Hambros Trust Company (Jersey) Limited.

"**Unit**" means a unit evidencing a beneficial interest in the Fund.

"**Valuation Date**" means the tenth Business Day preceding the Maturity Date.

"**\$**" means Canadian dollar, unless otherwise specified.

## BUSINESS DEVELOPMENT BANK OF CANADA

The Bank (formerly the Federal Business Development Bank) was established by the *Federal Business Development Bank Act* and was continued as a body corporate under the name "Business Development Bank of Canada" pursuant to the *Business Development Bank of Canada Act*. The Bank's head office is located at 5, Place Ville-Marie, Suite 400, Montreal, Québec, H3B 5E7. The objectives of the Bank are to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized businesses, by providing a wide range of financial and consulting services complementary to those of commercial financial institutions. To finance these objectives, the Bank issues debt instruments, which constitute direct unconditional obligations of the Bank and as such constitute direct unconditional obligations of Her Majesty in right of Canada. The Bank is for all purposes an agent of the Crown.

### DESCRIPTION OF THE NOTES

The following describes the material attributes and characteristics of the Notes offered hereby, which is complemented by the provisions of the global Note referred to below.

#### Offering

A global Note for the full amount of the issue will be issued in registered form to CDS on the Settlement Date. Subject to a limited exception, certificates evidencing the Notes will not be available to Holders under any circumstances and registration of ownership of the Notes will be made only through the BBS of CDS. The Notes may not be called for redemption by the Bank prior to Maturity.

The Notes will be issued at a price of \$10 per Note and will be payable on the Settlement Date. There is no minimum subscription per Holder.

#### Payment at Maturity

The Notes will mature on March 31, 2010.

At Maturity, the Holder of a Note will be entitled to receive in respect of each Note held by such Holder the Redemption Price, being the greater of (A) \$11.72 (equivalent to a 2% compounded annual yield) and (B) the amount determined by the Redemption Price Formula. The Redemption Price Formula is:

$$\$10 \times \left( 1 + 70\% \times \left( \frac{\text{Final NAV} - \text{Initial NAV}}{\text{Initial NAV}} \right) \right)$$

Where the Final NAV means the NAV of the ARMS Fund on the Valuation Date (being the tenth Business Day prior to the Maturity Date) and Initial NAV means \$10.

No interest will be paid on the Notes, except at Maturity.

#### The ARMS Fund

The Fund is a dedicated fund, the assets of which are allocated (indirectly through its investment in the Institutional Fund) among complementary alternative investment strategies under the direction of Trading Advisors specialized in such strategies. Through diversification across complementary alternative investment strategies, the Fund pursues an objective of stable return with low volatility and low correlation to equity and fixed income markets. The Trading Level (being the portion of the Fund's assets invested at any time in the Institutional Fund, expressed as a percentage of the Global NAV) will be adjusted on a regular basis according to the Leverage Policy. To the extent that the Trading Level is equal to or exceeds 100%,



substantially all of the assets of the Fund will be invested in the Institutional Fund. To the extent that the Trading Level is below 100%, a portion of the assets of the Fund will be invested in money market instruments. The Trading Level may vary from a minimum of 10% to a maximum of 150%, in which latter case the Fund will borrow an amount equal to 50% of its net assets in order to create leverage. The Fund will systematically hedge its exposure to the Canadian/US dollar rate by entering into currency forwards and foreign exchange spot transactions.

HR Strategies, as the investment advisor of the Institutional Fund, is responsible for the allocation of the Fund's assets among complementary alternative investment strategies and the selection of the Trading Advisors.

The value of the Notes will be linked to the economic performance of the Fund. Holders of Notes will have no direct interest in the Fund.

See below under "The ARMS Fund".

### **Rank**

The Notes will constitute direct unconditional obligations of the Bank and as such will constitute direct unconditional obligations of Her Majesty in right of Canada. The Notes will be issued on an unsubordinated basis and will rank *pari passu*, as among themselves, and with all other outstanding direct, unsecured and unsubordinated, present and future obligations (except as otherwise prescribed by law) of the Bank, and will be payable rateably without any preference or priority. The Notes will not be deposits insured under the *Canada Deposit Insurance Corporation Act*.

### **Credit Rating**

The Notes have not been rated by either Dominion Bond Rating Service Limited ("DBRS") or Standard & Poor's or any other agency. As of the date hereof, the obligations of the Bank with a term to maturity in excess of one year in Canadian currency are rated AAA by DBRS and Standard & Poor's. There can be no assurances that, if the Notes were specifically rated by DBRS or Standard & Poor's, they would have the same rating as long-term obligations of the Bank in Canadian currency. A rating is not a recommendation to buy, sell or hold investments, and may be subject to revision or withdrawal at any time by the relevant rating agency.

### **Settlement**

The Bank will be required to make available to the Holders, no later than 10:00 a.m. (Eastern time) on the Maturity Date, funds in an amount sufficient to pay the amounts due under the Notes, being the greater of (A) \$11.72 (equivalent to a 2% compounded annual yield) and (B) the amount determined by the Redemption Price Formula, through CDS or its nominee, or otherwise by cheque or (with the agreement of the Holder) by wire transfer.

### **Deferred Payment**

Federal laws of Canada preclude payments of interest or other amounts for the advancing of credit at effective rates in excess of 60% per annum. When any payment is to be made by the Bank to a Holder on account of the Redemption Price of a Note, payment of a portion of such payment may be deferred to ensure compliance with such laws.

### **Redemption by the Bank**

The Notes may not be redeemed by the Bank prior to Maturity.

## **Extraordinary Event**

Upon the occurrence of an Extraordinary Event, all of the assets of the Fund will be invested in high quality money market instruments (with a term of less than one year), in which case, for purposes of calculating the Redemption Price, the Final NAV shall be based on the net asset value of such money market instruments on the Valuation Date (whether or not the Fund has ceased to exist as a result of the Extraordinary Event). Notwithstanding an Extraordinary Event, the Notes will not be redeemable prior to the Maturity Date.

## **Book-Based System**

The Notes must be purchased, transferred and repurchased through a CDS Participant. On the Settlement Date, the Bank will cause all Notes in the form of a single global Note to be delivered to, and registered in the name of CDS. Registration of interests in and transfers of the Notes will be made only through the BBS of CDS. Subject to the exception mentioned below, no Holder will be entitled to any certificate or other instrument from the Bank or CDS evidencing the ownership thereof, and no Holder will be shown on the records maintained by CDS, except through a CDS Participant. Upon purchase of any Notes, the Holder will receive only the customary confirmation that will be sent to such Holder by the Agent or by other registered dealers from whom or through whom such Notes are purchased.

Definitive certificates in relation to the Notes will be issued to CDS Participants if the Bank advises the Holders that CDS is no longer willing or able to properly discharge its responsibilities as depositary with respect to Notes and the Holders and the Bank are unable to locate a qualified successor depositary system. In such event, the global Note requires the Bank to notify all CDS Participants and Holders, through the Book-Entry System, of the availability of definitive certificates. Upon the surrender by CDS of the global Note representing the Notes and instructions from CDS for registration, the Bank will issue definitive certificates to CDS Participants appearing on the records maintained by CDS at the time of or as soon as practicable prior to such delivery, which definitive certificates will thereafter evidence Notes previously evidenced by the global Note.

The responsibility and liability of the Bank in respect of the Notes represented by the global certificate is limited to making payment of any amount due on the global certificate to CDS or its nominee.

## **Notices to Holders**

All notices to the Holders regarding the Notes will be validly given if published once in an important French language Canadian newspaper and in the national edition of an important English language Canadian newspaper. The Bank will give notice as aforesaid to the Holders of any material change or material fact relating to the Notes. While any Note remains outstanding, the Bank will ensure that material information relating to the Notes is regularly available through the Internet on the following web sites: "[www.bdcarms.com](http://www.bdcarms.com)" and "[www.bdc.ca](http://www.bdc.ca)".

## **Amendments to the Notes**

The global Note may be amended without the consent of the Holders by agreement between the Bank and the Agent if, in the reasonable opinion of the Bank and the Agent, the amendment would not materially and adversely affect the interests of the Holders. In other cases, the global Note may be amended if the amendment is approved by a resolution passed by the favourable votes of the Holders of not less than  $66\frac{2}{3}\%$  of the Notes represented at a meeting convened for the purpose of considering the resolution, or by written resolution signed by Holders of not less than  $66\frac{2}{3}\%$  of the Notes. Each Holder is entitled to one vote per Note held by such Holder for the purposes of voting at meetings. The Notes do not carry the right to vote in any other circumstances.

## THE ARMS FUND

### The ARMS Fund

The Fund will be established on or prior to the Settlement Date under the laws of Jersey, Channel Islands, as a fund of the Lyxor Master Fund, an umbrella unit trust constituted and regulated as a "collective investment fund" under the *Collective Investment Funds (Jersey) Law*, 1988 (as amended). The Lyxor Master Fund was set up on the initiative of Société Générale by an Instrument of Trust dated October 19, 1998 (the "Trust"). The Trust is an umbrella trust, comprising several funds (such as the ARMS Fund) whose assets are pooled together, each fund having a specific investment policy. The Trust issues different classes of units each of which constitutes an indirect beneficial interest in the relevant fund in respect of which it is issued. All the units issued by the Trust in respect of the ARMS Fund will be held by Société Générale. The trustee is SG Hambros Trust Company (Jersey) Limited (the "Trustee"), which is a limited liability company incorporated under the laws of Jersey, Channel Islands, on July 21, 1970 for an unlimited duration and is a wholly-owned subsidiary of Société Générale.

Société Générale, a French banking corporation incorporated in 1864, is the most important constituent entity of the Société Générale Group (the "Group"). The Group is an international banking and financial service group based in France that includes approximately 300 French and foreign banking and non-banking companies. The Group also holds (for investment) minority interests in industrial and commercial companies. The Group is engaged in a broad range of banking and financial services activities, including deposit taking, lending and leasing, securities brokerage services, investment management, investment banking, capital markets activities and foreign exchange transactions. Its extensive network of international branches, agencies and other offices consists of over 2,600 offices in France and approximately 500 offices in 80 foreign countries and serves the Group's customers around the world.

For the purposes of trading, the assets of the ARMS Fund which are allocated (indirectly through its investment in the Institutional Fund) among complementary alternative investment strategies under the direction of the Trading Advisors will generally be held in managed accounts established in the name of the Lyxor Master Fund with a Prime Broker. Such managed accounts, which are dedicated accounts deposited with the Prime Broker, are managed on behalf of the Trust and the Fund by the Trading Advisors, in accordance with the terms of trading advisory agreements. Since the managed accounts are established in the name of the Lyxor Master Fund, the activity of and the investments made by the Trading Advisors through the managed accounts will be monitored regularly by the Prime Broker. The trading advisory agreements are subject to termination at any time by the Trustee or the Manager.

Substantially all of the assets of the Fund (other than those invested in money market instruments pursuant to the leverage policy of the Fund: see below under "Trading Level/Leverage Policy") will be invested in units of the Institutional Fund, which will in turn allocate substantially all of its assets to the Trading Advisors (see below under "Trading Advisors"). The Institutional Fund was established on December 18, 2001 under the laws of Jersey, Channel Islands. The Institutional Fund is also managed by the Manager, a wholly-owned subsidiary of Société Générale. HR Strategies, as investment advisor, is responsible for selecting Trading Advisors and determining the allocation of assets among the complementary alternative investment strategies under the direction of the Trading Advisors. See below under "Investment Advisor".

There is inherent leverage in the various investment strategies of the Institutional Fund. Furthermore, the Institutional Fund may, in appropriate circumstances, borrow funds.

### Investment Objective

The Fund is a dedicated fund, the assets of which are allocated (indirectly through its investment in the Institutional Fund) among complementary alternative investment strategies. Through diversification across various complementary alternative investment strategies, the Fund pursues an objective of stable return with

low volatility and low correlation to equity and fixed income markets. Generally, trading on behalf of the Fund will be for speculative purposes and will seek to capitalize on price movements or capture price spreads in a broad range of global markets.

The above objective allows the Fund to reduce the exposure to a single strategy through diversification and to achieve, over time, better risk-adjusted returns than a single-manager fund. The Fund also permits access to a broad range of investment strategies which are, as a general rule, not readily accessible to investors due to, among other things (i) high minimum investments requirements and (ii) restrictions on trading and/or on the number of investors.

The Fund will be valued, and the Notes will be valued and redeemed, in Canadian dollars. The Institutional Fund will maintain most of its assets in US dollars. Therefore, the Fund will systematically hedge its exposure to the Canadian/US dollar rate by entering into currency forwards and foreign exchange spot transactions. The intention of the foreign exchange hedge is to convert the performance produced by the Institutional Fund from US dollar to Canadian dollar.

### **The Multi-Advisor Approach**

The assets of the Fund are allocated (indirectly through the Fund's investment in the Institutional Fund) among complementary alternative investment strategies under the direction of several Trading Advisors. Initially, there will be 20 Trading Advisors (see below under "Trading Advisors"). This multi-advisor approach seeks to improve the risk/reward profile through diversification across various strategies and investment styles of many Trading Advisors. This approach should yield:

- (i) a reduction of global risk through portfolio diversification as the Investment Advisor will allocate the assets of the Fund across several complementary alternative investment strategies;
- (ii) an exposure to all asset classes: equities, bonds, currencies and commodities; and
- (iii) a high risk-adjusted return strategy designed to yield stable returns in various market environments.

### **The Manager**

The Manager of both the Fund and the Institutional Fund is Lyxor Asset Management S.A., a company organized under the laws of France and a wholly-owned subsidiary of Société Générale. Pursuant to the terms of the Management Agreement, the Manager manages the Fund and the Institutional Fund and, in particular, is responsible for monitoring the activities of the Fund and the of Institutional Fund and the implementation of the investment objectives in accordance with the terms of investment restrictions of the Fund and of the Institutional Fund. All recommendations and decisions of the Investment Advisor, including in particular in respect of the selection of Trading Advisors and the allocation of assets among complementary alternative investment strategies, require the ultimate approval of the Manager.

### **Trading Level / Leverage Policy**

The assets of the ARMS Fund will be allocated (indirectly through its investment in the Institutional Fund) among complementary alternative investment strategies in accordance with the authorized Trading Level. The Trading Level is the portion of the Fund's assets invested at any time in the Institutional Fund, expressed as a percentage of the Global NAV. The Trading Level may vary from a minimum of 10% (in which case 10% of the Fund's assets will be invested in the Institutional Fund and 90% of the Fund's assets will be invested in money market instruments) to a maximum of 150% (in which case substantially all of the assets of the Fund will be invested in the Institutional Fund and the Fund will borrow an amount equal to 50% of the Global NAV). To the extent that the Trading Level is greater than 100%, the Fund will borrow to create

leverage (i.e., if the Trading Level is 120%, the Fund will borrow an amount equal to 20% of the Global NAV; if the Trading Level is 130%, the Fund will borrow an amount equal to 30% of the Global NAV, etc., up to a maximum borrowing equal to 50% of the Global NAV) in accordance with the Fund's leverage policy (as described below).

The cash management of the Fund (i.e., borrowing and investing) will be made at the effective rate of Société Générale for Canadian dollar funds (at or around Canadian banker's acceptance rates).

During the term of the Fund, the Manager will implement a leverage policy (the "Leverage Policy") pursuant to which the Manager will endeavour to keep the Trading Level near to 5 times the difference between (i) the NAV and (ii) the Reference Level. The Trading Level will therefore be determined from time to time in accordance with the following formula:

$$\text{Trading Level (\%)} = 5 \times \frac{(\text{NAV} - \text{Reference Level})}{10}$$

For the purposes of the above formula, the Reference Level ("RL") is set at \$7.50 on the Settlement Date, increasing thereafter on a straight-line basis at the rate of \$0.312 per year to \$10.00 at the Maturity Date. The Reference Level can therefore be determined from time to time in accordance with the following formula:

$$\text{RL}(t) = \$7.50 + \$0.312 \left( \frac{t}{365} \right)$$

Where  $t$  is equal to the number of calendar days elapsed since the Settlement Date.

On the Settlement Date (when the Initial NAV is \$10.00 and the Reference Level is \$7.50), substantially all of the Fund's assets will be invested in the Institutional Fund and the Fund will borrow an amount equal to 25% of the Global NAV.

$$\begin{aligned} \text{Trading Level (\%)} &= 5 \times \frac{(\$10.00 - \$7.50)}{10} \\ &= 125\% \end{aligned}$$

The following examples further illustrate the Leverage Policy:

Example #1: Assuming a NAV of \$12.00 and a Reference Level of \$7.90, then the Trading Level will equal as follows:

$$\begin{aligned} \text{Trading Level (\%)} &= 5 \times \frac{(\$12.00 - \$7.90)}{10} \\ &= 205\% \end{aligned}$$

In such circumstances, the Trading Level will be 150% (the maximum Trading Level), such that all of the Fund's assets will be invested in the Institutional Fund and the Fund will borrow an amount equal to 50% of the Global NAV.

Example #2: Assuming a NAV of \$9.50 and a Reference Level of \$7.90, then the Trading Level will equal as follows:

$$\begin{aligned}\text{Trading Level (\%)} &= 5 \times \frac{(\$9.50 - \$7.90)}{10} \\ &= 80\%\end{aligned}$$

In such circumstances, 80% of the Fund's assets will be invested in the Institutional Fund and 20% of its assets will be allocated to money market instruments; the leverage will be zero.

## **Investment Advisor**

HR Strategies acts as investment advisor to the HRS ARMS Institutional Fund (the vehicle through which the Fund invests), and as such is responsible for the selection of the Trading Advisors and the allocation of assets among complementary alternative investment strategies.

HR Strategies was incorporated under the laws of Québec in 1993. It was one of the first Canadian firms to specialize in alternative investments, i.e. investments made with the objective of achieving positive performance independent of the direction of major equity and bond markets. HR Strategies has been the investment advisor of a fund of alternative investments since January 1994, and has established, for more than seven years, a track record of providing consistent returns to high net worth and institutional investors.

The firm's founder, René Perreault, and his team of experienced investment professionals have developed extensive knowledge of alternative investment strategies and of trading advisors specialized in such strategies. They have a unique expertise in managing alternative investment portfolios, focusing on the critical roles of manager selection, portfolio construction, risk management and continuous monitoring. The Investment Advisor has also built an elaborate network of industry partners and collaborators, including institutional investors, financial institutions and intermediaries and specialized consultants.

## **Trading Advisors**

The allocation (through the Institutional Fund) of the Fund's assets among complementary alternative investment strategies under the direction of the Trading Advisors seeks to maximize risk-adjusted returns through diversification. The Investment Advisor will actively allocate money to different Trading Advisors. The twenty Trading Advisors chosen for the initial allocation are divided among six alternative investment strategies, namely "event driven", "long/short equity", "statistical arbitrage", "global trading", "convertible arbitrage" and "fixed income arbitrage". The diversity of strategies allows for a low intra-trader correlation.

### *Selection*

The Trading Advisors will be selected from time to time by the Investment Advisor in respect of the six alternative investment strategies described below and in accordance with the investment objective of the Fund. From time to time, the Investment Advisor may, as it considers appropriate, allocate the assets among alternative investment strategies other than those previously described.

The Investment Advisor may, from time to time, make adjustments to the allocation of assets among the Trading Advisors, remove one or more Trading Advisors, replace Trading Advisors or add Trading Advisors. Such an adjustment may result from, for example, a significant change in any Trading Advisor's organization, ownership or management, departure of key personnel, unsatisfactory performance, significant changes in any investment policy or the capacity and/or willingness of any Trading Advisor to manage its allocated assets. In such event, the Investment Advisor may reduce or withdraw the amount of assets

allocated to the relevant Trading Advisor, and reallocate such amount either to the other existing Trading Advisors or to a new Trading Advisor recommended by it and approved by the Manager.

In addition, in the case of major changes in market conditions, the Manager may take other steps which may influence the allocation of funds or take decisions which anticipate foreseeable changes to the value of the underlying assets and generally take such steps as, in its reasonable opinion, are in the interest of the Holders.

### *Investment Strategies*

The Trading Advisors will initially engage in the following six alternative investment strategies which are briefly described below:

*Event Driven.* This investment strategy involves investments in opportunities created by significant transactional events, such as spin-offs, mergers and acquisitions, liquidations, reorganizations, bankruptcies, recapitalizations and share buybacks and other extraordinary corporate transactions. Event-driven strategies involve attempting to predict the outcome of a particular transaction as well as the optimal time at which to commit capital to it. The uncertainty about the outcome of these events creates investment opportunities for trading advisors who can correctly anticipate their outcomes. Event-driven trading advisors do not generally rely on market direction for results; however, major market declines may have a negative impact on the strategy.

*Long/Short Equity.* Long/short equity, or equity hedge, combines core long holdings of equities with short sales of stock or stock index securities. Equity hedge portfolios may be anywhere from net long to net short depending on market conditions. Equity hedge trading advisors generally increase net long exposure in bull markets and decrease net long exposure or even are net short in a bear market. Generally, the short exposure is intended to generate an ongoing positive return in addition to acting as a hedge against a general stock market decline. Stock index put options are also often used as a hedge against market risk. Profits are made when long positions appreciate and stocks sold short depreciate. Conversely, losses are incurred when long positions depreciate and/or the value of stocks sold short appreciates.

*Statistical Arbitrage.* Statistical arbitrage strategies are long/short stock portfolios that are determined based on quantitative models for selecting specific stocks and measuring market exposure. Based on these models, high ranking securities are purchased and low ranking securities are sold short in relative quantities designed to result in an aggregate portfolio that is neutral to broad equity market movements. Often, these models rely upon fundamental balance sheet and income statement data such as: earnings yield, dividend yield, revisions in earnings forecasts, relationship between market capitalization, revenues and net asset values, earnings forecasts, and price histories. Other approaches utilize analysis of different factors to measure the relative value of securities. Some portfolio trading advisors focus on specific industry sectors whereas others attempt to balance exposure across sectors.

*Global Trading.* Global trading funds or commodity trading advisors (generally referred to as CTAs) mostly buy and sell futures and/or futures options either long or short, typically through the futures markets, and typically using leverage. Trading advisors seek to exploit market directional moves, trading signals being generated either by global macro economic analysis or by systematic price pattern analysis.

*Convertible Arbitrage.* Convertible arbitrage generally involves taking long positions in convertible securities and hedging those positions by selling short the underlying common stock. For example, a trading advisor will, in an effort to capitalize on relative pricing inefficiencies, purchase convertible securities, generally convertible bonds, convertible preferred stock or warrants, and hedge a portion of the equity risk by selling short the underlying common stock. Timing may be linked to a specific event relative to the underlying company, or a belief that a relative mispricing exists between the corresponding securities. Convertible securities and warrants are priced as a function of the price of the underlying stock, expected

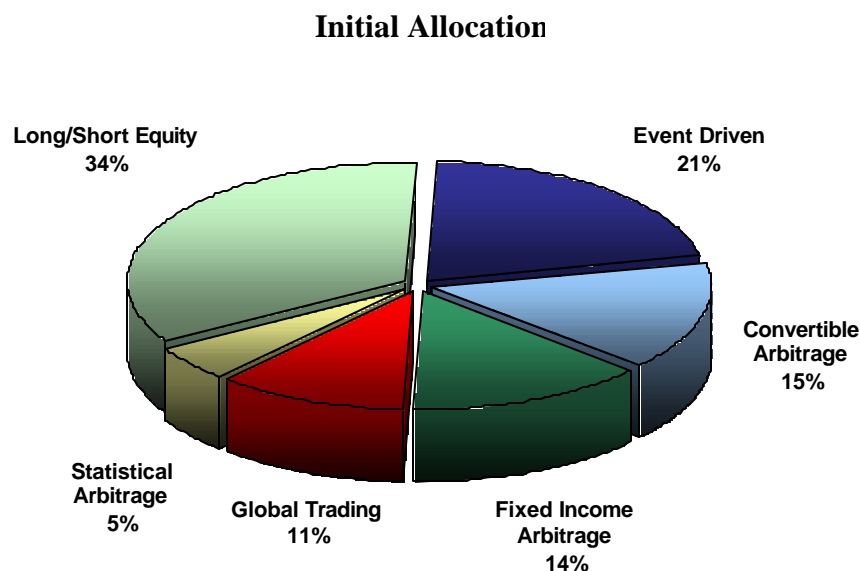
future volatility of returns, risk-free interest rates, call provisions, supply and demand for specific issues and the corporate spread over treasury.

*Fixed Income Arbitrage.* Fixed income arbitrage involves taking long and short positions in bonds and other interest rate sensitive securities. When combined, these positions approximate one another in terms of rate and maturity, but are suffering from pricing inefficiencies. Risk varies with the types of trades and level of leverage employed. In the US, this strategy is often implemented through mortgage-backed bonds and other mortgage derivative securities.



### *Initial Allocation*

The Fund's assets will be initially allocated, through the Institutional Fund, among the above six alternative investment strategies in the following percentages:



### *Initial Trading Advisors*

The following table shows the initial Trading Advisors, their investment strategies, together with the initial percentage allocation of the assets among them.

<b>Trading Advisors</b>	<b>Strategy/Focus</b>	<b>Weighting</b>
Carlson	Event Driven/Merger Arbitrage	5.1%
Tiedeman	Event Driven/Merger Arbitrage	6.0%
Paulson	Event Driven/Merger Arbitrage	5.0%
Third Point	Event Driven/Multi-Strategy	5.2%
Thames River	Long/Short Equity/UK Equities	6.0%
Gartmore	Long/Short Equity/European Sector Neutral	6.0%
Meisenbach Balboa	Long/Short Equity/US Equities	5.0%
Trellus	Long/Short Equity/US Equities Mid Small Capitalization	4.8%
Bradford	Long/Short Equity/US Equities Technology	3.9%
PanAgora	Long/Short Equity/US Equities Small Capitalization	4.0%
Sparx	Long/Short Equity/Japanese Equities	4.0%
Sabre Market Neutral	Statistical Arbitrage/Global Equities Statistical Arbitrage	4.9%
Sangamon	Global Trading/Managed Futures Discretionary	5.0%
Beach Discretionary	Global Trading/Managed Futures Discretionary	5.7%
Forest Fulcrum	Convertible Arbitrage/US Convertible Arbitrage	5.0%
Argent Low Lev	Convertible Arbitrage/US Convertible Arbitrage	5.1%
Zola Partners	Convertible Arbitrage/Convertible and Volatility Arbitrage	5.1%
Beacon Hill	Fixed Income Arbitrage/Mortgage Backed Securities	4.1%
Clinton	Fixed Income Arbitrage/Fixed Income Arbitrage	4.1%
ACM High Grade Strategy	Fixed Income Arbitrage/Mortgage Backed Securities	6.1%
		100%

## **The NAV**

### *Determination of the NAV*

The NAV will be calculated weekly by the Manager, under the supervision of the Trustee, on the basis of the last available closing price or settlement price on each Tuesday (or, if such day is not a business day in Paris, on the following business day in Paris) on markets where contracts and other assets held by the Fund are negotiated.

The value of the Fund's assets will be determined as follows:

1. the value of the Fund's interest in the Institutional Fund will be the net asset value per unit of the Institutional Fund times the number of such units held by the Fund, such net asset value being calculated as set forth below and being net of the liabilities of the Institutional Fund, including fees and expenses payable by it (see below under "Fees and Expenses"); and
2. liquid assets will be valued at face value with interest accrued.

### *Net Asset Value Per Unit of the Institutional Fund*

The net asset value per unit of the Institutional Fund will be calculated weekly by the Manager, under the supervision of the Trustee, on the basis of the last available closing price or settlement price on each Tuesday (or, if such day is not a business day in Paris, on the following business day in Paris) on markets where contracts and other assets held by the Institutional Fund are negotiated.

The value of the Institutional Fund's assets will be determined as follows:

1. the value of any asset negotiated or listed on any exchange will be determined on the basis of the closing bid-price or, as the case may be, settlement price;
2. the value of any asset negotiated on an organized market will be based on the latest bid-price available;
3. liquid assets will be valued at face value with interest accrued;
4. the value of units of collective investments schemes will be based on the latest bid-price available from the schemes of the collective investments or any other authorized source;
5. if on the day of valuation the Institutional Fund owns assets which are not negotiated or listed on an exchange market or organized market or where the price determined in compliance with subparagraphs 1) to 4) above for any asset is not representative of the real value of the said asset, such assets will be valued on the basis of the probable liquidation price which shall be estimated prudently and in good faith; and
6. all other assets shall be valued at their fair market value based on their foreseeable realization value.

In determining the NAV, the value of the Fund's assets shall be reduced by all liabilities of the Fund, including all fees and expenses payable by the Fund. See below under "Fees and Expenses".

### *Temporary Suspension of Calculation of the NAV*

The Manager may suspend the determination of the NAV:

1. in any period during which one of the main stock exchanges or markets on which a substantial part of the investments of the Institutional Fund is quoted or negotiated, is closed for a reason other than for ordinary holidays, or during which dealing therein is restricted or suspended;
2. in an emergency situation when the Fund or the Institutional Fund is unable to dispose of assets as necessary or unable to perform proper evaluation thereof;
3. when there is a breakdown in the means of information and/or calculation, necessary to determine the price or value of assets in the Institutional Fund or the current market price of such assets;
4. during any period when the Fund or the Institutional Fund is unable to repatriate funds in order to pay for the redemption of units or during which, in the opinion of the Manager, it is impossible to transfer funds necessary for the necessary liquidation or acquisition of investments or payments necessary to redeem units under normal conditions; or
5. as otherwise provided in the supplemental prospectus pursuant to which each of the Fund and the Institutional Fund was established.

### **Fees and Expenses**

#### *Fees and Expenses of the Fund*

All administrative and accounting expenses of the Fund will be paid by the Manager; brokerage fees, clearing fees, exchange fees and borrowing costs will be paid by the Fund.

The Manager will be entitled to receive from the Fund a fee equal to 2.55% per annum of the Global NAV, calculated weekly and payable quarterly in arrears.

#### *Fees and Expenses of the Institutional Fund*

All administrative and accounting expenses of the Institutional Fund will be paid by the Manager; brokerage fees, clearing fees, exchange fees and borrowing costs will be paid by the Institutional Fund.

The Institutional Fund will pay (i) to the Manager, an administration fee equal to 0.5% per annum of the assets invested by the Fund in the Institutional Fund, calculated weekly and payable quarterly in arrears, (ii) to the Investment Advisor, an advisory fee equal to 1% per annum of the assets invested by the Fund in the Institutional Fund, calculated weekly and payable quarterly in arrears, and (iii) to each Trading Advisor, a management fee generally equal to 1% to 2% per annum of the assets under the direction of such Trading Advisor and, in addition, an incentive fee which will generally correspond to 10% to 20% of the net appreciation in value of such assets.

All fees and expenses payable by the Fund or the Institutional Fund will, directly or indirectly, be paid from the assets of the Fund, and will, therefore, affect the Redemption Price of the Notes by reducing the Global NAV.

## **PLAN OF DISTRIBUTION**

The Notes are being offered by the Bank through the Agent, which has agreed to use its best efforts to solicit purchases of the Notes for the period up to the Settlement Date, subject to a minimum issue size, in the aggregate, of 1,000,000 Notes and BDC Absolute Return Multi-Strategy Protected Notes Series 2 due 2010 ("Series 2 Notes"), the Series 2 Notes being offered by the Agent concurrently with the offering of the Notes. The Agent may form a selling group to offer and sell the Notes. The Bank has agreed to pay the Agent a commission of \$0.60 per Note in connection with the sale of the Notes. No part of any commission paid by the Bank to the Agent may be reallocated, directly or indirectly, to any purchaser of Notes or to others, except for members of the selling group.

The Notes are new securities for which there is concurrently no established trading market. The Bank does not intend to apply for listing of the Notes on any securities exchange. Pursuant to the Agency Agreement, the Agent has agreed to maintain from September 2002 until Maturity, under normal market conditions, a weekly secondary market for the Notes in which the maximum bid-offer spread will be 1% of the Principal Amount (excluding commissions).

The Bank reserves the right to issue additional notes of a series previously issued, and other debt securities which may have terms substantially similar to the terms of the Notes offered hereby, which may be offered by the Bank concurrently with the offering of the Notes subject to the terms and conditions of the Agency Agreement.

## **USE OF PROCEEDS**

The net proceeds of the offering (after payment of the expenses related to this offering and the Agent's commission), will be used by the Bank for general banking purposes.

## **RISK FACTORS**

Investment in the Notes is subject to certain market risk factors. Payment under the Notes by the Bank is not considered to be one of these risks and none of these factors adversely affects the Bank's ability to perform its obligations under the Notes.

### **Suitability of Notes for Investment**

An investor should reach a decision to invest in the Notes after carefully considering, in conjunction with his or her advisors, the suitability of the Notes in light of the investment objectives and the other information set out in this Information Statement. The Bank makes no recommendation as to the suitability of the Notes for investment.

### **Investor's Yield May be Lower than the Yield on a Standard Debt Security of Comparable Maturity**

The Redemption Price will exceed \$11.72 (equivalent to a 2% compounded annual yield) only if, at Maturity, the Final NAV of the ARMS Fund increased above \$12.46. Such an increase is contingent on events that are inherently difficult to predict and beyond the Bank's control. Accordingly, there can be no assurance that any such increase will occur or, therefore, that more than \$11.72 will ever be payable with respect to each Note. Moreover, the value of an investment in the Notes may diminish over time owing to inflation and other factors that adversely affect the present value of a future payment. Accordingly, an investment in the Notes may result in a lower return when compared to other investments.

### **Possible Illiquidity of Secondary Market**

Despite the fact that the Agent has agreed to maintain from September 2002 until Maturity, under normal market conditions, a weekly secondary market for the Notes in which the maximum bid-offer spread will be 1% of the Principal Amount (excluding commissions), it is not possible to predict at what price the Notes will trade in the secondary market or whether such market will be liquid or illiquid.

### **Notes Purchased in the Secondary Market**

The minimum Redemption Price of \$11.72 is guaranteed by the Bank at Maturity. However, the Bank does not guarantee the payment at Maturity of any premium that may have been paid by a noteholder having purchased Notes in the secondary market over such amount of \$11.72. In addition, the trading price of a Note at any time will be dependent on, among other things, (i) how much the NAV has risen or fallen since the Settlement Date, (ii) the fact that the amount of protected principal together with the guaranteed compounded annual yield of 2% at Maturity is limited to \$11.72 and that any premium that may have been paid for the Notes on the secondary market is not protected by the Bank, and (iii) a number of other interrelated factors, including, without limitation, the volatility of the NAV, prevailing interest rates, the time remaining to Maturity Date, correlation of returns between the different investment strategies and market demand for the Notes. The relationship among these factors is complex and may also be influenced by various political, economic and other factors that can affect the trading price of a Note. In particular, the value of the Notes may differ from the value of the Fund. The Holder may wish to consult his, her or its investment advisor on whether it would be more favorable in the circumstances at any time to sell the Note or hold the Note until Maturity.

### **Extraordinary Event**

Upon the occurrence of an Extraordinary Event, all of the assets of the Fund will be invested in high quality money market instruments (with a term of less than one year). Consequently, Holders will no longer benefit from potential returns from investment strategies utilized.

### **The Leverage Policy / Trading Level**

The Trading Level, being the portion of the Fund's assets invested at any time in the Institutional Fund (expressed as a percentage of the Global NAV) may vary from a minimum of 10% (in which case 90% of the Fund's assets will be invested in money market instruments) to a maximum of 150% (in which case the Fund will borrow an amount equal to 50% of the Global NAV). To the extent that the Trading Level exceeds 100%, the Fund will borrow in order to create leverage. In such circumstances, a negative performance of the Trading Advisors and borrowing costs will accentuate any decrease in the NAV. To the extent that the Trading Level is below 100%, the Fund will invest a portion of its assets in money market instruments. As a result, the Fund could be prevented from continuing to invest (through its investment in the Institutional Fund) in alternative investment strategies during what would otherwise have been highly profitable periods, and consequently substantially under perform an otherwise similar portfolio not subject to the Fund's risk control policy. Decreasing the Fund's investment in alternative investment strategies may reduce return potential for Holders.

### **Past Performance is not Necessarily Indicative of Future Results**

The mere fact that the Trading Advisors have been successful in the past does not insure profitable trading in the future. Speculative alternative investment strategies involve substantial risks, and the outcome is uncertain. The Trading Advisors selected may not trade profitably and may incur substantial losses for the Fund. Past performance is not necessarily indicative of future results.

## **Trading Advisors**

Potential purchasers of Notes should be aware that the performance of the Fund will depend to a considerable extent on the performance of the Trading Advisors. The Bank, the Manager, the Investment Advisor and the Agent cannot protect against the risk of fraud or misrepresentation on the part of any Trading Advisor. Furthermore, the performance of the Trading Advisors may depend to a certain extent on certain key employees. If such individuals cease to be employed for any reason, the performance of the Fund might be significantly affected.

The allocation of assets among Trading Advisors may vary from their initial allocation, and the assets allocated to Trading Advisors may represent more or less than 100% of the Fund's total net assets. In addition, under certain circumstances the Investment Advisor may remove, replace or add Trading Advisors. The overall performance of the Fund may suffer for a period as a result of such actions.

The Trading Advisors will trade independently of one another and may at times hold economically offsetting positions, in which case the Fund as a whole may not achieve any gain or loss despite the otherwise profitable trading positions of certain Trading Advisors. Furthermore, if various Trading Advisors hold correlated trading positions at the same time, the Fund will sustain significant losses in the event that such trading positions become unprofitable.

## **Foreign Exchange Hedge**

The Fund will maintain most of its assets, and the Notes will be valued and redeemed, in Canadian dollars. The Institutional Fund will maintain most of its assets in US dollars. Therefore, the Fund will systematically hedge its exposure to the Canadian/US dollar rate by entering into currency forwards and foreign exchange spot transactions. The performance of the Fund may be impacted by the cost of foreign exchange hedge.

## **Use of Derivative Instruments/Volatility**

The Institutional Fund may use derivative instruments to leverage its trading. Such instruments may also be used for short sales or option writing, and may result in losses much bigger than the initial deposits or premiums received. Furthermore, derivative instruments are inherently volatile, and the leverage strategies used may further increase such volatility.

## **Investment in Emerging Markets**

Investments of the Institutional Fund may include securities of issuers in countries with emerging economies or securities markets. Political and economic structures in many such countries may be undergoing significant evolution and rapid development, and such countries may lack the social, political and economic stability characteristic of more developed countries. Certain of such countries may have in the past failed to recognize private property rights and have at times nationalized or expropriated the assets of private companies. As a result, the risks of investing in such countries, including the risks of nationalization, expropriation of assets or restriction on currency convertibility, may increase. In addition, unanticipated sociopolitical developments may affect the value of the Fund's underlying investments.

## **Fees and Transaction Costs**

The Institutional Fund may have to support significant transaction costs. In addition, as a result of diversification, some of the Trading Advisors may receive management and incentive fees, even though the Institutional Fund as a whole may not have realized any gains.

Furthermore, in order for the Redemption Price to exceed \$11.72 (equivalent to a 2% compounded annual yield) at Maturity, the Final NAV of the Fund will have to exceed \$12.46 after deduction of the aggregate fees and expenses paid by the Fund and the Institutional Fund.

## **Illiquid Instruments**

The Institutional Fund may invest in instruments which, due to their particular characteristics, may not enjoy a high level of liquidity. As a consequence, the Institutional Fund may encounter significant delays when attempting to realize such assets during which the price of such assets may move materially.

## **Counterparty Risk**

The Institutional Fund may enter into swap, repurchase, lending or other transactions which may subject it to the performance and credit risk of the counterparty.

## **Bankruptcy or Default**

In the event of the bankruptcy of any Prime Broker or other broker used to execute trades, the Institutional Fund may be unable to recover its funds held on behalf of the Fund, so that investors may realize a loss should they dispose of their investment in the Notes, despite the Fund having been otherwise highly profitable.

## **Not Registered Securities**

The Notes are not registered under the *Securities Act* (Quebec) or under any securities laws. No Canadian or regulatory authority has recommended or approved the Notes, nor has any such regulatory authority reviewed or passed upon the accuracy or adequacy of this Information Statement.

## **Regulatory Changes**

Regulatory changes in applicable jurisdictions could limit the ability of the Fund to carry out its business as described herein.

## **INCOME TAX CONSIDERATIONS**

In the opinion of McCarthy Tétrault LLP, counsel to the Bank and the Agent, the following is a summary of the principal Canadian federal income tax considerations generally applicable to a Holder who acquires Notes pursuant to this Information Statement and who, for purposes of the Federal Act and at all relevant times, is or is deemed to be a resident of Canada, holds such Notes as capital property and deals at arm's length with the Bank. Notes will generally constitute capital property to a Holder thereof unless the Holder holds such Notes in the course of carrying on a business or has acquired such Notes in a transaction or transactions considered to be an adventure in the nature of trade.

This summary is based upon the current provisions of the Federal Act, the regulations thereunder and counsel's understanding of the current published administrative practices and policies of the Canada Customs and Revenue Agency ("CCRA"), all in effect as of the date hereof. This summary also takes into account all specific proposals to amend the Federal Act and regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof ("Tax Proposals") and assumes all Tax Proposals will be enacted substantially as proposed. However, no assurance can be given that the Tax Proposals will be enacted as proposed, or at all.

The Act contains provisions relating to securities held by certain financial institutions (the "Mark-to-Market rules"). This summary does not take into account the Mark-to-Market rules. Holders of Notes that are "financial institutions" for purposes of the Mark-to-Market rules should consult their own tax advisors.

This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Tax Proposals, does not take into account or anticipate any changes in law, whether by legislative,

governmental or judicial decision or action, or any changes in the administrative practices of the CCRA. This summary does not take into account tax legislation of any province, territory or foreign jurisdiction. Provisions of provincial income tax legislation vary from province to province in Canada and may differ from federal income tax legislation.

**This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder of Notes. Accordingly, Holders should consult their own tax advisors for advice with respect to the income tax consequences to them of acquiring, holding and disposing of Notes having regard to their particular circumstances.**

A Holder of a Note that is a corporation, partnership, unit trust, or any trust of which a corporation or partnership is a beneficiary will be required to include in computing income in a year the interest that accrues to such Holder to the end of such year in respect of the Minimum Return, to the extent that such interest was not otherwise included in computing its income for a preceding year. A Holder of a Note, other than a corporation, partnership or trust described above, will be required to include in computing income in a year, the interest that accrues to such Holder to the anniversary date of the Note that occurs in such year in respect of the Minimum Return, to the extent that such interest was not otherwise included in computing the Holder's income for the year or any preceding taxation year.

The Redemption Price of a Note can be ascertained, and the right to it arises, only at the Maturity Date. The amount by which the Redemption Price exceeds the aggregate of the Principal Amount of the Note and the amounts required to be included in the Holder's income for a preceding year in respect of the Minimum Return, will be included in the Holder's income, as interest, in the taxation year in which the Maturity Date occurs.

On a disposition of a Note resulting from the repayment by the Bank at Maturity, a Holder will realize a capital gain (or a capital loss) to the extent that a payment received at such time, less reasonable costs of disposition and the amount required to be included in the Holder's income as interest in the year of such a disposition or in a preceding taxation year, exceeds (or is less than) the Holder's adjusted cost base of the Note.

It is unclear whether amounts received or deemed to be received by a Holder on a disposition or deemed disposition of a Note, other than a disposition resulting from a repayment by the Bank at the Maturity Date, will be considered as giving rise to a capital gain or a capital loss, or to income or an ordinary loss. CCRA has not expressed any opinion on this issue. Generally, an amount received or deemed to be received by a Holder on such disposition or deemed disposition of a Note will give rise to a capital gain (or a capital loss) to the Holder to the extent such amount exceeds (or is less than) the Holder's adjusted cost base of the Note. **However, Holders who dispose of a Note within a short period of time prior to the Maturity Date should seek the advice of their own tax advisor as to the tax consequences resulting therefrom.**

In certain circumstances, where a Holder assigns or otherwise transfers a Note, the amount of interest accrued on the Note to that time in respect of the Minimum Return, but unpaid, will be excluded from the proceeds of disposition of the Note for the purposes of computing a gain or a loss and will be required to be included as interest in computing the Holder's income for the taxation year in which the disposition occurs, except to the extent it has been otherwise included in income for that year or a preceding year. In general, the Holder may deduct in computing income for the year of disposition, the amount, if any, by which the aggregate amount of interest included in the Holder's income exceeds the total interest actually received.

Generally, one-half of any capital gain constitutes a taxable capital gain which must be included in the Holder's income and one-half of any capital loss constitutes an allowable capital loss, which is deductible against taxable capital gains, subject to and in accordance with the provisions of the Federal Act. A Holder that is a Canadian-controlled private corporation may be subject to a refundable tax of 6 2/3% on investment income, including taxable capital gains.



Capital gains realized by an individual or trust, other than certain trusts, may give rise to alternative minimum tax under the Federal Act.

### **LEGAL MATTERS**

Opinions will be delivered on certain matters pertaining to the Notes offered by this Information Statement on the Settlement Date on behalf of the Agent and the Bank by McCarthy Tétrault LLP.