

Information Statement

Dated January 21, 2004

Business Development Bank of Canada



**China Dragon Index Active Protection Notes,
Series 2**

Price: \$100 per Note

China Dragon Index Active Protection Notes, Series 2 ("Notes") are principal protected, non-interest bearing promissory notes issued by Business Development Bank of Canada ("BDC") linked to the Merrill Lynch China Dragon Active Protection Canadian Index II (the "Reference Index"). The Note entitles the holder on maturity to a return equal to the greater of (i) the Minimum Redemption Amount (calculated as the principal amount of the Note multiplied by a percentage amount determined by reference to the increase in the Reference Index (referred to as the Minimum Guaranteed Percentage)), and (ii) the principal amount of the Note, multiplied by the level of the Reference Index on the Index Maturity Date (as defined herein) divided by 100. The Notes are denominated in Canadian dollars and payments will be calculated and paid in Canadian dollars. A Note will not constitute a deposit that is insured under the *Canada Deposit Insurance Corporation Act*.



BUSINESS DEVELOPMENT BANK OF CANADA

**China Dragon Index Active Protection Notes,
Series 2 ("Notes")**

INFORMATION STATEMENT

This Information Statement has been prepared for the sole purpose of assisting prospective purchasers in making an investment decision with respect to the Notes. BDC has taken all reasonable care to ensure that the facts stated in this Information Statement in relation to the Notes are true and accurate in all material aspects and that there are no other material facts in relation to the Notes the omission of which would make any statement herein, whether of fact or opinion, misleading. No person has been authorized to give any information or to make any representations other than those that may be contained in (i) this Information Statement, (ii) any amendments made from time to time to this Information Statement, or (iii) any supplementary terms and conditions provided in any global note, in connection with the offering or sale of the Notes and, if given or made, such information or representations must not be relied upon as having been authorized. Neither the delivery of this Information Statement nor the issue of the Notes nor any sale thereof shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of BDC since the date hereof.

The distribution of this Information Statement and the offering and sale of the Notes are restricted within Canada and to Canadian residents and may be subject to further restrictions within any relevant province or territory. BDC and the selling agents require persons into whose possession this Information Statement comes to inform themselves of and observe any and all such restrictions. More particularly, the Notes have not been and will not be registered under the United States Securities Act of 1933, as amended. The Notes may not be offered, sold or delivered within the United States or to United States persons (as such expressions are defined in the United States Internal Revenue Code and Regulations thereunder). This Information Statement does not constitute an offer or invitation by anyone in any jurisdiction in which such offer is not authorized or to any person to whom it is unlawful to make such offer or invitation. No securities commission or similar regulatory authority has in any way passed upon the merits of the Notes and any representation to the contrary may be an offence.

In this Information Statement, capitalized terms will have the meanings ascribed to them in this Information Statement and references to "\$" are to Canadian dollars.

This Information Statement is confidential and should not be reproduced or disseminated in whole or in part without the permission of BDC.

The Notes do not constitute deposits insured under the Canada Deposit Insurance Corporation Act.

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Business Development Bank of Canada
China Dragon Index Active Protection Notes,
Series 2

SUMMARY OF THE OFFERING

The following summary of the terms of the Notes is subject to, and should be read in conjunction with, the more detailed information which follows in this Information Statement and the terms and conditions set forth in the global security representing the Notes (the "Global Note"). Capitalized terms used but not defined in this summary are defined elsewhere in the Information Statement.

A China Dragon Index Active Protection Note, Series 2 (each a "Note" and, collectively, the "Notes") is a non-interest bearing index-linked promissory note issued by Business Development Bank of Canada ("BDC"). If a Note is held to maturity, the holder of a Note (the "Noteholder") will receive at maturity the final redemption amount (the "Final Redemption Amount"), equal to the greater of (i) the Minimum Redemption Amount (calculated as the principal amount of the Note multiplied by a percentage amount determined by reference to the increase in the level of the Merrill Lynch China Dragon Active Protection Canadian Index II (referred to as the Minimum Guaranteed Percentage)), and (ii) the principal amount of the Note multiplied by the level of the Merrill Lynch China Dragon Active Protection Canadian Index II on the Index Maturity Date (as defined under "Payments Under the Notes") divided by 100.

Issuer:	BDC
Designation:	China Dragon Index Active Protection Notes, Series 2
Principal Amount:	\$100 per Note
Denominations:	\$100 and integral multiples of \$100
Minimum Subscription:	\$2,000
Issue Price:	Notes will be issued at par for a price equal to the \$100 Principal Amount of the Note.
Minimum Issue Size:	\$15,000,000
Issue Date:	On or about March 23, 2004
Maturity Date and Term:	On or about March 23, 2012 (resulting in a term to maturity of approximately eight years).

Reference Index:

The Reference Index is the Merrill Lynch China Dragon Active Protection Canadian Index II. The Reference Index replicates a dynamic investment strategy that allocates an investment between units (the "Market Asset Units") of the Merrill Lynch China Dragon Index® (the "China Dragon Index") and units of Government of Canada bonds (the "Reserve Asset Units"). Initially, the Reference Index will have an 80% exposure to the China Dragon Index. **The Reference Index will have an initial level of 94.5.** Subject to the following paragraph, as the level of the Reference Index rises, the Reference Index is rebalanced so that it consists of more Market Asset Units (up to a maximum of 150% through the use of leverage). As the level of the Reference Index falls, the Reference Index is rebalanced in accordance with the investment strategy to consist of more Reserve Asset Units, so that the targeted minimum return of the Reference Index may be attained.

Pursuant to such investment strategy, if the level of the Merrill Lynch China Dragon Index should fall such that the Reference Index must be rebalanced to comprise only Reserve Asset Units, then, following the first occurrence of such an event, (i) no further rebalancing of the Reference Index will take place, (ii) the Reference Index shall thereafter be constituted solely of Reserve Asset Units, regardless of the future performance of the China Dragon Index, (iii) changes in the China Dragon Index will no longer affect the level or the constituents of the Reference Index, and (iv) for the remaining term of the Reference Index, the level of the Reference Index will be approximately equal to the notional aggregate offer price of the number of Reserve Asset Units theoretically required to produce a redemption amount equal to the targeted minimum level of the Reference Index on the Index Maturity Date, plus the Management Fee (as defined under "*The Notes – Fees and Expenses*") in respect of the remaining term of the Reference Index, as determined by the Reference Index Sponsor. (The term of the Reference Index and the term of the Note are not the same as the Index Maturity Date is scheduled to occur five Business Days prior to the Maturity Date of the Notes.)

The level of the Reference Index is calculated and published by Merrill Lynch International (in such capacity, the "Reference Index Sponsor"). For the purposes of calculating the Reference Index, the level of the Market Asset Units will be converted by the Reference Index Sponsor from U.S. dollars to Canadian dollars on each day that the level of the Market Asset Unit is determined, based on the prevailing rate of exchange as quoted on Page CAD= (Reuters Group plc. ("Reuters")). The Reference Index Sponsor will endeavour to make available the level of the Reference Index on Page MLHKU (Reuters) and on Page MLHK8 (Bloomberg LP ("Bloomberg")) or such other information publication service as the Reference Index Sponsor may in its sole discretion select. See "*The Reference Index*" for a description of the Reference Index.

China Dragon Index:

The China Dragon Index is an adjusted market capitalization weighted index of 30 stock exchange listed securities. The securities selected will be stocks of companies from the People's Republic of China, Hong Kong, Macau, Taiwan and Singapore. The China Dragon Index is calculated and published by Merrill Lynch International (in such capacity, the "Market Asset Sponsor"). The Market Asset Sponsor will endeavour to make available the level of the China Dragon Index on Page MLHKK (Reuters) and on Page MLEIDRAG (Bloomberg), or such other information publication service as the Market Asset Sponsor may, in its sole discretion, select. The closing level of the China Dragon Index on January 15, 2004 was 1998.48. See "*The China Dragon Index*" for a description of the China Dragon Index.

Amounts Payable at Maturity:

Except in the circumstances described under "*Consequences of Extraordinary Events*" below, the amount payable under a Note on the Maturity Date will be the Final Redemption Amount, equal to the greater of:

- (a) Minimum Redemption Amount; and
- (b) $(\text{Final Reference Index Level}/100) \times \text{Principal Amount}$

"Minimum Redemption Amount" for the purpose of the Notes is the greater of: (a) 100% of the Principal Amount; and (b) the Minimum Guaranteed Percentage x the Principal Amount. See "*Payments Under the Notes*".

"Final Reference Index Level" means the level of the Reference Index as published by the Reference Index Sponsor on the Index Maturity Date (which will be March 16, 2012, except in certain circumstances). See "*Payments Under the Notes*".

Minimum Guaranteed Percentage:

The Reference Index incorporates a "partial profit lock-in" feature, by which the targeted minimum level (the "Minimum Guaranteed Percentage") of the Reference Index at the Index Maturity Date (expressed as a percentage of 100) rises above 100% when the level of the Reference Index first reaches 120. In particular, the Minimum Guaranteed Percentage rises to 110% when the Reference Index first reaches 120, and by a further 10% for every additional 20 index point increment, as illustrated below.

Reference Index level reaches for the first time:	Minimum Guaranteed Percentage equals:
120	110%
140	120%
160	130%
180	140%
200	150%
etc. in 20 point steps	etc. in 10 point steps

It should be noted that any rise in the Minimum Guaranteed Percentage occurs only once at each 20-point threshold level above the Reference Index level of 100, so that if the Reference Index were to fall and then rise again above the same threshold level, no further rise in the Minimum Guaranteed Percentage will occur in relation to that threshold level.

Not Redeemable:

The Notes cannot be redeemed by the Noteholders prior to the Maturity Date. The Notes are not redeemable by BDC prior to the Maturity Date except in the circumstances discussed in "*The Notes – Consequences of Extraordinary Events – Early Redemption*".

Consequences of Extraordinary Events:

If any Extraordinary Event described under the heading "*The Notes – Consequences of Extraordinary Events – Extraordinary Events*" occurs at any time during the term of the Notes, BDC may (but shall not be obligated to) redeem all of the Notes for an amount (the "Early Redemption Amount") if and only if the Early Redemption Amount would be equal to or greater than the Principal Amount of the Note. See "*The Notes – Consequences of Extraordinary Events – Early Redemption*". If, however, the Early Redemption Amount would be less than the Principal Amount of the Note, BDC will not be entitled to redeem the Notes notwithstanding the occurrence of an Extraordinary Event and holders will be entitled to a payment at maturity at least equal to the Principal Amount of the Note calculated as set forth below under the heading "*The Notes – Consequences of Extraordinary Events – Early Determination of Final Redemption Amount*". The effect of these provisions is to ensure that notwithstanding the occurrence of an Extraordinary Event, a Noteholder will nonetheless be entitled to receive at least the Principal Amount of the Note.

Status/Ranking:	The Notes will constitute direct unconditional obligations of BDC 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, as among themselves, the Notes will rank <i>pari passu</i> and will be payable rateably without any preference or priority. The Notes will not constitute deposits that are insured under the <i>Canada Deposit Insurance Corporation Act</i> .
Investment Eligibility:	The Notes will be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans within the meaning of the <i>Income Tax Act</i> (Canada) (other than a deferred profit sharing plan to which payments are made by BDC or a corporation with which BDC does not deal at arm's length) and will not constitute foreign property for purposes of Part XI of that Act.
Book Entry Registration:	Records of ownership and transfer of the Notes will be maintained through the book-entry only system of The Canadian Depository for Securities Limited ("CDS") or its successor. The Notes must be purchased either directly or indirectly through a participant in the book-entry only system. Except in certain limited circumstances, Noteholders will not be entitled to receive certificates evidencing the Notes in definitive form. A Noteholder will not be shown on the records maintained by CDS, except through an agent who is a participant of CDS.
Risk Factors:	A person should consider carefully the factors set out under ' <i>Risk Factors</i> ' before reaching a decision to buy the Notes.
Calculation Agent:	Merrill Lynch International, as Calculation Agent, will be BDC's agent for purposes of calculating, among other things, any Early Redemption Amount or the Minimum Redemption Amount and the Final Redemption Amount.
Secondary Trading of Notes:	After the initial offering, Merrill Lynch Canada Inc. ("MLC") or any selling agents ("Selling Agents") appointed by MLC may from time to time, commencing on the first anniversary of the Issue Date, purchase and sell Notes in the secondary market, but are not obligated to do so. There can be no assurance that there will be a secondary market for the Notes.

Early Cancellation Fees:

To the extent that MLC purchases Notes from time to time, BDC has authorized MLC to deduct a fee (in consideration of the services provided by MLC in connection with the offering of the Notes) from the purchase price of the Notes quoted by MLC for such purchase, calculated as a percentage of the Principal Amount of the Note, as follows:

<u>Purchase Period</u>	<u>Fee Deduction</u>
	(as a % of the Principal Amount of the Note)
March 23, 2005 – March 23, 2006	5%
March 23, 2006 – March 23, 2007	4%
March 23, 2007 – March 23, 2008	3%
March 23, 2008 – March 23, 2009	2%
After March 23, 2009	Nil

FREQUENTLY ASKED QUESTIONS

The following questions and answers have been prepared to provide potential investors with a brief summary of some of the features of the Notes and the information given in such answers is subject to, and should be read in conjunction with, the other sections of the Information Statement and the terms and conditions set forth in the Global Note.

Are the Notes RRSP eligible?

Yes, the Notes are RRSP eligible and will not constitute foreign property for purposes of the *Income Tax Act* (Canada).

Who is the issuer and what is its credit rating?

The issuer of the Notes is the Business Development Bank of Canada. The Notes will constitute direct unconditional obligations of BDC and, as such, will constitute direct unconditional obligations of Her Majesty in right of Canada. The Notes have not been rated by Dominion Bond Rating Service Limited ("DBRS"), Standard & Poor's Rating Service ("S&P"), Moody's Investor Services Inc. ("Moody's") or any other rating agency. As at the date hereof, the obligations of BDC with a term to maturity in excess of one year in Canadian currency were rated AAA by DBRS, AAA by S&P and Aaa by Moody's.

What is the minimum amount that a client can purchase?

The minimum purchase amount is \$2,000.

Is the Principal Amount of the Notes protected?

100% of the Principal Amount of the Notes is protected whether the Notes are held to the Maturity Date or redeemed upon the occurrence of any "Extraordinary Event" as described under the heading *The Notes – Consequences of Extraordinary Events*". In addition, the partial profit lock-in feature is designed to protect gains made by the Reference Index. However, the Principal Amount of the Notes is not protected if the investor sells the Notes prior to the Maturity Date.

How does the partial profit lock-in feature work?

When the Reference Index first reaches a level of 120 and at each 20 index point increment reached for the first time above 120, half of the 20 index point gain is locked-in, thereby increasing the Final Redemption Amount at the Maturity Date. Please note the partial profit lock-in feature only applies once at each threshold. For example, if the Reference Index reaches 120, the minimum guaranteed redemption amount is 110% of the Principal Amount of the Note. See *"Payments Under the Notes – Examples of the Final Redemption Amount"*.

What happens to the Reference Index if the China Dragon Index falls?

Should the China Dragon Index fall in value, the Reference Index is rebalanced so that it consists of more units of Government of Canada bonds. This reduces the exposure of the Notes to further decreases in the China Dragon Index. The increased exposure of the Reference Index to units of Government of Canada bonds ensures that the Final Redemption Amount at the Maturity Date will not be less than the original Principal Amount of the Notes plus any partial profit lock-in amounts.

If the level of the China Dragon Index should fall such that the Reference Index must be rebalanced to comprise only units of Government of Canada bonds, then, following the first occurrence of such an event, (i) no further rebalancing of the Reference Index will take place, (ii) the Reference Index shall thereafter be constituted solely of units of Government of Canada bonds (regardless of the future performance of the China Dragon Index), (iii) changes in the China Dragon Index will no longer affect the level of the constituents of the Reference Index, and (iv) the Reference Index will be approximately equal to the present value of the Minimum Redemption Amount of a Note (for the remaining term of the Note).

Can the upside potential of the Notes be increased?

In a rising equity market, the Reference Index is adjusted so that it consists of more units of the China Dragon Index up to a maximum of 150% through the use of leverage. The potential to increase the exposure means that it is possible for the Reference Index to out-perform the underlying China Dragon Index. However, the use of leverage can magnify both gains and losses.

Will Noteholders receive interest payments on the Notes?

The Notes are not conventional notes in that they do not provide Noteholders with a return or income stream prior to the Maturity Date. The Notes are designed for investors who prefer the opportunity to participate in the potential appreciation of the Reference Index, rather than receive periodic interest payments.

Why is the term of the Notes eight years?

The Notes are designed for investors seeking long-term economic exposure to the constituents of the China Dragon Index and with additional benefits not typically offered by China-related mutual funds, such as a partial profit lock-in feature, principal protection and low annual fees.

Will the Noteholders receive certificates representing the Notes purchased?

Except in certain limited circumstances, Noteholders will not be entitled to receive certificates evidencing the Notes in definitive form. A Noteholder will not be shown on the records maintained by CDS, except through an agent who is a participant of CDS. One or more definitive global notes evidencing the Notes will be issued on the Issue Date to CDS or its nominee as the only registered holder thereof. Investors will hold their interests in the Notes through their client accounts with a Sales Agent. See "*The Notes – Form and Registration*".

How is the value of the Notes affected by Asian currency fluctuations?

The Principal Amount of the Notes and any "partial profits" that have already been "locked-in" are not subject to currency fluctuations. However, because the underlying equities may be listed in a foreign currency (e.g. Hong Kong dollar, New Taiwan dollar and Singapore dollar), appreciation of any of these Asian currencies would positively affect the Reference Index and depreciation of such currencies would negatively affect the Reference Index.

Is information on the level of the China Dragon Index publicly available?

The Market Asset Sponsor will endeavour to make available the level of the China Dragon Index on Page MLHKK (Reuters) and on Page MLEIDRAG (Bloomberg), or such other information publication service as the Market Asset Sponsor may select.

Is information on the level of the Reference Index publicly available?

The Reference Index Sponsor will endeavour to make available the level of the Reference Index on Page MLHKU (Reuters) and on Page MLHK8 (Bloomberg) or such other information publication service as the Reference Index Sponsor may select.

PAYMENTS UNDER THE NOTES

Final Redemption Amount

The Final Redemption Amount, calculated by the Calculation Agent, payable in respect of the Principal Amount of the Note will be equal to the greater of:

- (a) Minimum Redemption Amount; and
- (b)
$$\frac{\text{Final Reference Index Level}}{100} \times \text{Principal Amount}$$

Where,

"**Minimum Redemption Amount**" means the greater of: (a) 100% of the Principal Amount; and (b) the Minimum Guaranteed Percentage x the Principal Amount.

"**Minimum Guaranteed Percentage**" is a percentage amount determined by reference to the increase in the level of the Reference Index. The Reference Index incorporates a "partial profit lock-in" feature, by which the Minimum Guaranteed Percentage of the Reference Index at the Index Maturity Date (expressed as a percentage of 100) rises above 100% when the level of the Reference Index first reaches 120. In particular, the Minimum Guaranteed Percentage rises to 110% when the Reference Index first reaches 120, and by a further 10% for every additional 20 index point increment on or prior to the Index Maturity Date (each, a "Lock-In Event"), as illustrated below. The term of the Note is not equal to the term of the Reference Index as the Index Maturity Date occurs five Business Days prior to the Maturity Date of the Notes, unless a Market Disruption Event occurs.

Reference Index level reaches for the first time:	Minimum Guaranteed Percentage equals:
120	110%
140	120%
160	130%
180	140%
200	150%
etc. in 20 point steps	etc. in 10 point steps

"**Principal Amount**" is \$100 per Note.

"**Final Reference Index Level**" means the level of the Reference Index, as published by the Reference Index Sponsor on the Index Maturity Date, provided that if no such level is published on such date, it shall be the level of the Reference Index on such date as determined by the Calculation Agent, in its sole discretion, having regard to such sources as it deems appropriate.

"**Reference Index**" means the Merrill Lynch China Dragon Active Protection Canadian Index II calculated and published by the Reference Index Sponsor, provided that if such index is: (i) not calculated and published by the Reference Index Sponsor but is calculated and announced by a successor sponsor acceptable to the Calculation Agent; or (ii) replaced by a successor index using, in the determination of the Calculation Agent, the same or a substantially similar formula or method of calculation as used in relation to the Merrill Lynch China Dragon Active Protection Canadian Index II then, in each case, such successor index (the "Successor Reference Index") should be deemed to be the Reference Index, and the related

sponsor thereof, the Reference Index Sponsor. See "*The Reference Index*" for a description of the China Dragon Active Protection Canadian Index II.

"Index Maturity Date" means the date defined as such in relation to the Reference Index (or, if applicable, the equivalent or corresponding term thereto in relation to any Successor Reference Index), as determined by the Calculation Agent. The Index Maturity Date is scheduled for March 16, 2012, provided that if such day (i) is not an Exchange Business Day, or (ii) is a day (a "Disruption Day") on which a Market Disruption Event has occurred or is continuing, it shall be the earlier of (a) the next succeeding Exchange Business Day which is not a Disruption Day, and (b) the day which is the seventh calendar day after March 16, 2012.

All determinations made by the Calculation Agent shall be at the sole discretion of the Calculation Agent and, absent a determination by the Calculation Agent of a manifest error, shall be conclusive for all purposes and binding on BDC and the holders and beneficial owners of the Notes.

See "*The Reference Index – Certain Definitions Relating to the Reference Index*" for a description of the terms "Business Day", "Exchange Business Day", "Market Disruption Event" and "Market Asset Disruption Event".

Final Rebalancing Event

If the level of the China Dragon Index should fall such that the Reference Index must be rebalanced to comprise only Reserve Asset Units (a "Final Rebalancing Event"), then, following the first occurrence of such an event, (i) no further rebalancing of the Reference Index will take place, (ii) the Reference Index shall thereafter be constituted solely of Reserve Asset Units (regardless of the future performance of the China Dragon Index), (iii) changes in the China Dragon Index will no longer affect the level or the constituents of the Reference Index, and (iv) for the remaining term of the Reference Index, the level of the Reference Index will be approximately equal to the notional aggregate offer price of the number of Reserve Asset Units theoretically required to produce a redemption amount equal to the targeted minimum level of the Reference Index on the Index Maturity Date, plus the Management Fee in respect of the remaining term of the Reference Index, as determined by the Reference Index Sponsor. (The term of the Reference Index and the term of the Note are not the same as the Index Maturity Date is scheduled to occur five Business Days prior to the Maturity Date of the Notes.)

Examples of the Final Redemption Amount

Below are examples of Final Redemption Amount calculations assuming an investment term equal to that of the Notes. **These examples are included for purposes of illustration only.** The levels of the Reference Index used in the examples are not estimates or forecasts. All examples assume that the Noteholder has purchased Notes in the aggregate principal amount of \$10,000.

Example #1

In this example, the Reference Index reaches a level of 205 in the seventh year, triggering a partial profit lock-in of 50 and setting the Minimum Guaranteed Percentage at 150%, thereby effectively guaranteeing a Final Reference Index Level of no lower than 150 and a Minimum Redemption Amount of no lower than \$15,000.

A) Calculation of Minimum Redemption Amount

Year	1	2	3	4	5	6	7	8	Final Reference Index Level
Level of Reference Index	94.5	120	90	140	160	180	205	205	205
Minimum Guaranteed Percentage	100%	110% ⁽¹⁾	110%	120% ⁽¹⁾	130% ⁽¹⁾	140% ⁽¹⁾	150% ⁽¹⁾	150%	
Minimum Redemption Amount for every \$10,000 of Notes ⁽²⁾									\$15,000

1) 50% of the gains would have been locked-in during years 2, 4, 5, 6 and 7.
 2) The Minimum Redemption Amount is the greater of (i) the Principal Amount, and (ii) the Principal Amount x the Minimum Guaranteed Percentage.

B) Final Redemption Amount is the greater of:

i) Minimum Redemption Amount = \$15,000

– and –

ii)
$$\frac{\text{Final Reference Index Level} \times \text{Principal Amount}}{100} = \frac{205 \times \$10,000}{100} = \$20,500$$

Final Redemption Amount = \$20,500
 In Example #1, the Noteholder would receive a Final Redemption Amount of \$20,500 on the Maturity Date.

Example #2

In this example, the Reference Index reaches a level of 180 in the second year, triggering a partial profit lock-in of 40 and setting the Minimum Guaranteed Percentage at 140%, thereby effectively guaranteeing a Final Reference Index Level of no lower than 140 and a Minimum Redemption Amount of \$14,000, regardless of the performance of the China Dragon Index thereafter. It is assumed that the China Dragon Index decreases significantly in the fourth year, resulting in the occurrence of a Final Rebalancing Event in which the Reference Index will be rebalanced such that 100% of its notional assets would thereafter consist only of units of Government of Canada bonds (in order to ensure that the Final Reference Index Level will be equal to the targeted minimum level which, in this example, is 140). The Reference Index would no longer fluctuate with increases or decreases in the level of the China Dragon Index.

A) Calculation of Minimum Redemption Amount

Year	1	2	3	4	5	6	7	8	Final Reference Index Level
Level of Reference Index	94.5	180	150	120 ⁽¹⁾	125	130	135	140	140
Minimum Guaranteed Percentage	100%	140% ⁽²⁾	140%	140%	140%	140%	140%	140%	
Minimum Redemption Amount for every \$10,000 of Notes ⁽³⁾									\$14,000

- 1) A Final Rebalancing Event occurs in year 4 due to a substantial decrease in the level of the China Dragon Index in that year, such that the Reference Index is rebalanced to comprise only units of Government of Canada bonds. For the remaining term of the Reference Index, the level of the Reference Index will be approximately equal to the notional aggregate offer price of the number of Reserve Asset Units theoretically required to produce a Final Reference Index Level of 140, plus the Management Fee in respect of the remaining term of the Reference Index, as determined by the Reference Index Sponsor.
- 2) 50% of the gains would have been locked-in during year 2.
- 3) The Minimum Redemption Amount is the greater of (i) the Principal Amount, and (ii) the Principal Amount x the Minimum Guaranteed Percentage.

B) Final Redemption Amount is the greater of:

- i) Minimum Redemption Amount = \$14,000
- and –
- ii) $\frac{\text{Final Reference Index Level} \times \text{Principal Amount}}{100} = \frac{140 \times \$10,000}{100} = \$14,000$

Final Redemption Amount = \$14,000
 In Example #2, due to the effect of the "partial profit lock-in" feature, the Noteholder would receive a Final Redemption Amount of \$14,000 on the Maturity Date.

Example #3

In this example, it is assumed that the China Dragon Index decreases by 50% in the first year, resulting in the occurrence of a Final Rebalancing Event in which the Reference Index is to be rebalanced such that 100% of its notional assets would thereafter consist only of units of Government of Canada bonds (in order to ensure that the Final Reference Index Level will be equal to the targeted minimum level which, in this example, is 100). The Reference Index would no longer fluctuate with increases or decreases in the level of the China Dragon Index.

A) Calculation of Minimum Redemption Amount

Year	1	2	3	4	5	6	7	8	Final Reference Index Level
Level of Reference Index	94.5	70 ⁽¹⁾	75	80	85	90	95	100	100
Minimum Guaranteed Percentage	100%	100%	100%	100%	100%	100%	100%	100% ⁽²⁾	
Minimum Redemption Amount for every \$10,000 of Notes ⁽³⁾									\$10,000

- 1) A Final Rebalancing Event occurs in year 2 due to a substantial decrease in the level of the China Dragon Index in that year, such that the Reference Index is rebalanced to comprise only units of Government of Canada bonds. For the remaining term of the Reference Index, the level of the Reference Index will be approximately equal to the notional aggregate offer price of the number of Reserve Asset Units theoretically required to produce a Final Reference Index Level of 100, plus the Management Fee in respect of the remaining term of the Reference Index, as determined by the Reference Index Sponsor.
- 2) No gains were locked-in during the life of the Note.
- 3) The Minimum Redemption Amount is the greater of (i) the Principal Amount, and (ii) the Principal Amount x the Minimum Guaranteed Percentage.

B) Final Redemption Amount is the greater of:

- i) Minimum Redemption Amount: = \$10,000
 – and –
- ii)
$$\frac{\text{Final Reference Index Level} \times \text{Principal Amount}}{100} = \frac{100 \times \$10,000}{100} = \$10,000$$

Final Redemption Amount = \$10,000
 In Example #3, the Noteholder would receive a Final Redemption Amount of \$10,000 on the Maturity Date.

Example #4

In this example, the Reference Index increases steadily over the first six years to a level of 180, before having a dramatic turnaround in year 7 (due to a dramatic drop of the China Dragon Index). The Reference Index reaches 180 in year 5, triggering a partial profit lock-in of 40, thereby effectively guaranteeing a Final Reference Index Level of no lower than 140, regardless of the performance of the China Dragon Index thereafter. This example assumes that the drop of the China Dragon Index in year 7 would cause a Final Rebalancing Event to occur and the Reference Index to be rebalanced, such that 100% of its notional assets would thereafter consist only of units of Government of Canada bonds (in order to ensure that the Final Reference Index Level will be equal to the targeted minimum level which, in this example, is 140).

A) Calculation of Minimum Redemption Amount

Year	1	2	3	4	5	6	7	8	Final Reference Index Level
Level of Reference Index	94.5	120	140	160	180	180	135 ⁽¹⁾	140	140
Minimum Guaranteed Percentage	100%	110% ⁽²⁾	120% ⁽²⁾	130% ⁽²⁾	140% ⁽²⁾	140%	140%	140%	
Minimum Redemption Amount for every \$10,000 of Notes ⁽³⁾									\$14,000

- 1) A Final Rebalancing Event occurs in year 7 due to a substantial decrease in the level of the China Dragon Index in that year, such that the Reference Index is rebalanced to comprise only Reserve Asset Units. For the remaining term of the Reference Index, the level of the Reference Index will be approximately equal to the notional aggregate offer price of the number of Reserve Asset Units theoretically required to produce a Final Reference Index Level of 140, plus the Management Fee in respect of the remaining term of the Reference Index, as determined by the Reference Index Sponsor.
- 2) 50% of the gains would have been locked-in during years 2, 3, 4 and 5.
- 3) The Minimum Redemption Amount is the greater of (i) the Principal Amount, and (ii) the Principal Amount x the Minimum Guaranteed Percentage.

B) Final Redemption Amount is the greater of:

- i) Minimum Redemption Amount = \$14,000
 – and –
- ii)
$$\frac{\text{Final Reference Index Level} \times \text{Principal Amount}}{100} = \frac{140 \times \$10,000}{100} = \$14,000$$

Final Redemption Amount = \$14,000

In Example #4, due to the effect of the "partial profit lock-in" feature, the Noteholder would receive a Final Redemption Amount of \$14,000 on the Maturity Date, even though the Reference Index decreased significantly in year 7.

THE NOTES

The following is a summary of the material attributes and characteristics of the Notes. Reference is made to the Global Note (defined under " – *Form and Registration*" below) for the full text of such attributes and characteristics.

Terms of the Notes

The Notes issued by BDC will constitute direct unconditional obligations of BDC 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, as among themselves, the Notes will rank *pari passu* and will be payable rateably without any preference or priority. However, the Notes will not constitute deposits that are insured under the *Canada Deposit Insurance Corporation Act*.

Notes will be issued by BDC on or about March 23, 2004 (the "Issue Date") at par for a price equal to their Principal Amount. The Principal Amount of each Note is \$100. The Maturity Date will be on or about March 23, 2012 (resulting in a term to maturity of approximately eight years). Subject to certain events described herein, the calculation of the Final Reference Index Level will occur five Business Days prior to the Maturity Date, unless a Market Disruption Event occurs. The Final Redemption Amount of each Note will become payable to a Noteholder on the Maturity Date.

The Final Redemption Amount will be determined by the Calculation Agent in accordance with the formulae and related definitions noted under "*Payments Under the Notes*".

Form and Registration

All Notes will be represented by a fully-registered book-entry only global security (the "Global Note") held by or on behalf of CDS as custodian of the Global Note (for its participants), and registered in the name of CDS or its nominee (the "Nominee"), initially CDS & Co. The Global Note will represent indebtedness of BDC under the Notes in respect of the aggregate Principal Amount. (All references to the Notes and a Note contained in this Information Statement will include the Global Note unless the context otherwise requires.)

Except in the limited circumstances described below, purchasers of beneficial interests in the Global Note will not be entitled to receive Notes in definitive form. Rather, the Notes will be represented in book-entry form only. Beneficial interests in the Global Note, constituting ownership of Notes, will be represented through book-entry accounts of institutions acting on behalf of Noteholders, as direct and indirect participants of CDS. CDS will be responsible for establishing and maintaining book-entry accounts for its participants having interests in the Global Note. Transfers of ownership of beneficial interests in the Global Note will be effected through records maintained by CDS for such Global Note or the Nominee (with respect to interests of participants) and on the records of participants (with respect to interests of persons other than participants).

If CDS notifies BDC that it is unwilling or unable to continue as depository in connection with the Global Note or ceases to be recognized as a clearing agency under applicable Canadian securities legislation at a time when it is required to be and, if a successor depository is not appointed by BDC within 90 days after receiving such notice or becoming aware that CDS is no longer recognized, BDC will issue or cause to be issued Notes in definitive form upon registration of a transfer of, or in exchange for, the Global Note. Notes in definitive form will be in fully registered form. The text of the definitive Notes will contain such provisions as BDC may deem necessary or advisable provided that such provisions may not be

incompatible with the provisions of the terms and conditions of the Notes as set out in this Information Statement.

BDC will keep or cause to be kept a register in which will be recorded registrations and transfers of Notes in definitive form, if issued. Such register will be kept at the office of BDC, or at such other office notified by BDC to the Noteholders.

No transfer of the Global Note in definitive form will be valid unless registered in the aforesaid register upon surrender of the Global Note in definitive form for cancellation with a written instrument of transfer in form and as to execution satisfactory to BDC, and upon compliance with such reasonable requirements as BDC may prescribe.

The Global Note may not be transferred except as a whole by CDS to a nominee of CDS, or by a nominee of CDS to CDS or another nominee of CDS.

Payment at Maturity

The Final Redemption Amount payable under the Global Note on the Maturity Date will be made available by BDC no later than 2:00 p.m. (Toronto time) on the Maturity Date, at BDC's option either through the Paying and Transfer Agent or through CDS or its Nominee in accordance with arrangements between BDC and CDS. If the Maturity Date is not a day on which BDC is open for business in Montreal, Quebec, the Final Redemption Amount payable under the Global Note will be made on the next succeeding Business Day on which BDC is open for business in Montreal, Quebec. The Paying and Transfer Agent or CDS or its Nominee (as the case may be) will, upon receipt of any such amount, immediately facilitate payment to the applicable CDS participants, or credit to those participants' CDS accounts, in amounts proportionate to their respective beneficial interests in the Final Redemption Amount as shown on the records of CDS or its Nominee. BDC expects that payments by participants to owners of beneficial interests in the Global Note held through such participants will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such participants. The responsibility and liability of BDC in respect of Notes represented by a Global Note is limited to making payment of any amount due on the Global Note to CDS or its Nominee.

Neither BDC nor the Paying and Transfer Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership of Notes represented by the Global Note or for maintaining, supervising or reviewing any records relating to such ownership.

Payments of the Final Redemption Amount on definitive Notes, if issued, will be made by cheque mailed to the Noteholder at the address of the Noteholder appearing in the aforementioned register in which registrations and transfers of Notes are to be recorded or, if requested in writing by the Noteholder at least five Exchange Business Days before the date of the payment and agreed to by BDC, by electronic funds transfer to a bank account nominated by the Noteholder with a bank in Canada. Payment under any definitive Note is conditional upon the Noteholder first delivering the Note to BDC; BDC reserves the right to retain the Note and mark the Note as cancelled.

Neither BDC, the Paying and Transfer Agent nor CDS will be bound to see to the execution of any trust affecting the ownership of any Note or be affected by notice of any equity that may be subsisting with respect to any Note.

The Final Redemption Amount is payable in Canadian dollars.

Consequences of Extraordinary Events

Extraordinary Events

For the purposes of the foregoing, "Extraordinary Event" means any of the following events:

- (a) the Reference Index Sponsor makes a material change in the formula for, or the method of calculating, the Reference Index, or otherwise materially modifies the investment aims of the Reference Index (other than in any way provided for in such formula or method for maintaining the investment aims of the Reference Index);
- (b) the Reference Index Sponsor fails to calculate and publish the Reference Index for five (5) consecutive Exchange Business Days;
- (c) the Market Asset Sponsor or a successor sponsor acceptable to the Calculation Agent (the "Successor Market Asset Sponsor") makes a material change in the formula for, or the method for calculating, the China Dragon Index, or otherwise materially modifies the investment aims of the China Dragon Index (other than in any way provided for in such formula or method to maintain the investment aims of the China Dragon Index);
- (d) the Market Asset Sponsor or Successor Market Asset Sponsor fails to calculate and/or publish the level of the China Dragon Index on or prior to 8:00 p.m. (Hong Kong time) on each day for a period of ten (10) consecutive Exchange Business Days;
- (e) the Reference Index Sponsor determines that the level of the China Dragon Index published by the Successor Market Asset Sponsor, if any, does not appropriately reflect the market value of any security forming part of the constituents of the China Dragon Index ("Market Asset Security"), including any prevailing customary dealing costs, charges or taxes relating thereto, or is otherwise erroneous, and such determination occurs for a period of ten (10) consecutive Exchange Business Days;
- (f) the Market Asset Sponsor or Successor Market Asset Sponsor permanently cancels the China Dragon Index;
- (g) any Market Asset Disruption Event occurs or exists for a period of ten (10) consecutive Exchange Business Days; or
- (h) any change in applicable law or regulation that results, or will result, solely by reason of the Notes being outstanding, in BDC being required to be regulated by any additional jurisdiction or regulatory authority, or being subject to any additional legal requirement or regulation considered by BDC to be materially onerous to it.

Early Redemption

If any Extraordinary Event occurs at any time during the term of the Notes, BDC may (but shall not be obligated to) redeem all of the Notes for an amount (the "Early Redemption Amount") if and only if the Early Redemption Amount would be equal to or greater than the Principal Amount of the Note. If the Early Redemption Amount would be less than the Principal Amount of the Note, BDC will not be entitled to redeem the Notes notwithstanding the occurrence of any Extraordinary Event and Noteholders will be entitled to a payment at maturity calculated as set forth below under the heading "*– Early Determination of Final Redemption Amount*". The effect of these provisions is to ensure that notwithstanding the

occurrence of an Extraordinary Event, a Noteholder will nonetheless be entitled to receive at least the Principal Amount of the Note.

The Early Redemption Amount will be calculated by the Calculation Agent on the third Exchange Business Day following the occurrence of the Extraordinary Event (the "Early Redemption Valuation Date"). The Early Redemption Amount payable in respect of each Note will be equal to (i) the Calculation Agent's determination of the market value of each Note on the Early Redemption Valuation Date, taking into account such factors as, but not limited to, interest rates, the level of the Reference Index, implied volatilities in the options markets and exchange rates, less (ii) the "Associated Costs". Associated Costs means an amount per Note equal to the *pro rata* share (on the basis of the Principal Amount of the Note and the aggregate Principal Amount of all Notes which have not been redeemed or cancelled as at the relevant Early Redemption Valuation Date) of the total amount of any and all costs associated or incurred by BDC or any company affiliated with it in connection with such early redemption, including, without limitation, any funding related costs and any costs associated with unwinding any hedge positions relating to the Notes, all as determined by the Calculation Agent in its sole discretion.

If BDC is entitled to and elects to redeem the Notes upon the occurrence of an Extraordinary Event, it will provide notice in the manner set forth under the heading " – Notices to Noteholders" below within three Exchange Business Days following the Early Redemption Valuation Date informing the Noteholders that an early redemption of the Notes will occur and that the Early Redemption Amount will be payable on the tenth day after the date of such notice.

Early Determination of Final Redemption Amount

If the Early Redemption Amount would be less than the Principal Amount of the Note on the Early Redemption Valuation Date, then BDC will not be entitled to redeem the Notes. Instead, the Notes will no longer be linked to the Reference Index and the Noteholder will receive at the Maturity Date the Principal Amount of the Note plus an amount, if any, notionally earned on the Early Redemption Amount of the Note in excess of the Principal Amount of the Note, which will be based on an interest rate reflecting the relevant Government of Canada bond yield.

Plan of Distribution

The Notes are being offered by BDC through MLC, as Placement Agent, which has agreed to use its best efforts to solicit purchases of the Notes for the period up to the Issue Date. MLC may appoint sales agents ("Selling Agents") acceptable to BDC, acting reasonably, to offer and sell the Notes.

BDC 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 BDC concurrently with the offering of Notes subject to the terms and conditions contained in the agency agreement to be entered into between MLC and BDC in respect of the offering of Notes.

Secondary Trading of Notes

A Noteholder is not entitled to receive the Final Redemption Amount before the Maturity Date. However, if there is an available secondary market (and there can be no assurance that there will be such a market or whether such market will be liquid or illiquid), the Noteholder could sell the Note.

After the initial offering, the Placement Agent or any Sales Agents may from time to time, commencing on the first anniversary of the Issue Date, purchase and sell Notes in the secondary market, but are not

obligated to do so. There can be no assurance that there will be a secondary market for the Notes. The offering price and other selling terms for such sales in the secondary market may, from time to time, be varied by MLC. To the extent that MLC purchases Notes in the secondary market, BDC has authorized MLC to deduct a fee (in consideration of the services provided by MLC in connection with the initial distribution of the Notes) from the purchase price of the Notes quoted by MLC for such purchase, calculated as a percentage of the Principal of the Note, as follows:

<u>Purchase Period</u>	<u>Fee Deduction</u> (as a % of the Principal Amount of the Note)
March 23, 2005 – March 23, 2006	5%
March 23, 2006 – March 23, 2007	4%
March 23, 2007 – March 23, 2008	3%
March 23, 2008 – March 23, 2009	2%
After March 23, 2009	Nil

The trading price of a Note at any time will be dependent on, among other things, (i) the closing values of the Reference Index since the Issue Date, (ii) the fact that the \$100 Principal Amount of the Note is payable on the Maturity Date regardless of the closing value of the Reference Index at any time, and (iii) a number of other interrelated factors, including, without limitation, volatility in the closing value of the Reference Index, prevailing interest rates, the time remaining to the Maturity Date, 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.

The Noteholder may wish to consult his or her investment advisor on whether it would be more favourable in the circumstances at any time to sell the Note (assuming the availability of a secondary market) or hold the Note until the Maturity Date.

Fees and Expenses

BDC has agreed to pay the Selling Agents and the Placement Agent an upfront commission of 4% and 1.5%, respectively, of the Principal Amount of each Note in connection with the sale of the Notes. No part of any commission paid by BDC to MLC may be reallocated, directly or indirectly, to any purchaser of Notes or to others, except for Selling Agents, and MLC will not be entitled to receive any commission from any other party in respect of sales of the Notes.

Merrill Lynch International and its affiliates will also receive a notional fee (the "Management Fee") through a reduction in the level of the Reference Index on a daily basis (calculated on the basis of a year of 360 days) at a fixed rate per annum calculated as a percentage of the prevailing level of the Reference Index. Such fixed rate will be 1.8% per annum; however, after a Final Rebalancing Event (as defined under "*Payment Under the Notes*" above), the rate will be 1.8% per annum for the period from March 23, 2004 to March 23, 2008 (inclusive), and 0.6% per annum thereafter. Accordingly, the amount of the Management Fee will decrease if the level of the Reference Index falls during the term of the Note and will increase if the level of the Reference Index rises during the term of the Note, and the fixed rate of the Management Fee will decrease after March 23, 2008 if the Reference Index is shifted entirely into Government of Canada bonds following a Final Rebalancing Event. In any event, a Noteholder will be entitled to receive at least the Principal Amount of the Note if the Notes are held to the Maturity Date or redeemed upon the occurrence of an Extraordinary Event.

Business Development Bank of Canada

BDC's address for purposes of the Notes is: 5 Place Ville-Marie, Bureau 400, Montreal, Quebec H3B 5E7, Attention: Vice-President and Treasurer.

Calculation Agent

"Calculation Agent" means Merrill Lynch International in its capacity as the calculation agent for the Notes as appointed by BDC. The Calculation Agent shall act as an independent expert and as an agent for BDC. Merrill Lynch International's address is Merrill Lynch Financial Centre, 2 King Edward Street, London, England EC1A 1HQ. Whenever the Calculation Agent is required to act, it will do so in good faith. All determinations made by the Calculation Agent shall be at the sole discretion of the Calculation Agent and, absent a determination by the Calculation Agent of a manifest error, shall be conclusive for all purposes and binding on BDC and the Noteholders.

Paying and Transfer Agent

"Paying and Transfer Agent" means the paying and transfer agent for the Notes appointed by BDC from time to time.

Dealings with Companies

Each of BDC, the Calculation Agent and the Paying and Transfer Agent may from time to time, in the course of its normal business operations, extend credit to, or hold interests linked to the China Dragon Index or other securities of, or enter into other business dealings with, one or more of the companies whose shares are included in the Reference Index. Each of BDC, the Calculation Agent and the Paying and Transfer Agent has agreed that all such actions taken by it shall be taken based on normal commercial criteria in the particular circumstances and shall not take into account the effect, if any, of such actions on the level of the Reference Index or the amount of the Final Redemption Amount that may be payable on the Notes.

Notices to Noteholders

If notice is required to be given to Noteholders in the circumstances contemplated in this Information Statement, such notice will be made through CDS by BDC or its agent publishing for circulation to CDS participants a notice or bulletin setting forth the information specified or contemplated to be included in such notice. Noteholders will have access to such information through the CDS participants in which Notes are held. Other than the requirement to give notice to Noteholders prior to an early redemption of the Notes, BDC will have no obligation to notify Noteholders or CDS participants in any other manner.

Status/Ranking

The Notes will constitute direct unconditional obligations of BDC 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, as among themselves, the Notes will rank *pari passu* and will be payable rateably without any preference or priority. The Notes do not constitute deposits that are insured under the *Canada Deposit Insurance Corporation Act*.

Credit Ratings

The Notes have not been rated by either DBRS, S&P, Moody's or any other rating agency. As at the date hereof, the obligations of BDC with a term to maturity in excess of one year were rated AAA by DBRS, AAA by S&P and Aaa by Moody's. There can be no assurances that, if the Notes were specifically rated by DBRS, S&P or Moody's, they would have the same rating as the long-term obligations of BDC. A rating is not a recommendation to buy, sell or hold investments, and may be subject to revisions or withdrawals at any time by the relevant rating agency.

Modifications of the Notes

The Global Note may be amended without the consent of the Noteholders by agreement between BDC and the Calculation Agent if, in the reasonable opinion of BDC and the Calculation Agent, the amendment would not materially and adversely affect the rights of the Noteholders. In other cases, the Global Note may be amended by the Noteholders if the amendment is approved by a resolution passed by the favourable votes of the Noteholders of not less than 66 2/3% of the outstanding aggregate Principal Amount of the Notes represented at a meeting convened for the purpose of considering the resolution. Each Noteholder is entitled to one vote per \$100 of Principal Amount held by such Noteholder for the purposes of voting at meetings convened for this purpose. The Notes do not carry the right to vote in any other circumstances.

Purchases by the Calculation Agent or BDC

The Calculation Agent, BDC, or any of their affiliates, associates or successors, may at any time, subject to applicable laws, purchase Notes at any price in the open market or by private agreement.

Outstanding Series 1 Notes

On December 16, 2003, BDC issued approximately \$68 million of China Dragon Index Active Protection Notes, Series 1 of BDC due December 16, 2011 (the "Series 1 Notes"). MLC acted as placement agent in connection with this transaction. The Series 1 Notes are principal protected, non-interest bearing promissory notes linked to the performance of the Merrill Lynch China Dragon Active Protection Canadian Index (the "Reference Index I") which, like the Reference Index for the Notes offered hereby, is linked to the China Dragon Index. The Reference Index I was created on December 16, 2003 with an initial level of 94. On January 15, 2004, the closing level of the Reference Index I was 97.5. Past performance of the Reference Index I is not necessarily indicative of the future performance of the Reference Index for the Notes offered hereby.

THE REFERENCE INDEX

The following is a summarized description of the Reference Index and is subject to, and should be read in conjunction with, the more detailed information set out in Schedules 1 and 2 of the Global Note.

General

The Reference Index is the Merrill Lynch China Dragon Active Protection Canadian Index II. The Reference Index replicates a dynamic investment strategy that allocates an investment between units of the China Dragon Index (Market Asset Units) and units of Government of Canada bonds (Reserve Asset Units). The objective of the allocation strategy is to expose the Reference Index to the China Dragon Index to the extent that this is possible while at the same time ensuring that the level of the Reference Index on the Index Maturity Date will not be less than the targeted minimum level. Initially, the Reference Index will have an 80% exposure to the China Dragon Index. **The Reference Index will have an initial level of 94.5.**

The Reference Index incorporates a "partial profit lock-in" feature, by which the Minimum Guaranteed Percentage of the Reference Index at the Index Maturity Date (expressed as a percentage of 100) rises above 100% when the level of the Reference Index first reaches 120. In particular, the Minimum Guaranteed Percentage rises to 110% when the Reference Index first reaches 120, and by a further 10% at the first time each 20 index point increment above 120 is attained. Note that any rise in the Minimum Guaranteed Percentage occurs only once at each 20 point threshold level above the Reference Index level of 100, so that if the Reference Index were to fall and then rise again above the same threshold level, no further rise in the Minimum Guaranteed Percentage will occur in relation to that threshold level.

The level of the Reference Index is calculated and published by Merrill Lynch International (in such capacity, the "Reference Index Sponsor"). For the purposes of calculating the Reference Index, the level of the Market Asset Units will be converted by the Reference Index Sponsor from U.S. dollars to Canadian dollars on each day on which the Market Asset Unit is determined based on the prevailing rate of exchange, as quoted on Page CAD= (Reuters). The Reference Index Sponsor will endeavour to make available the level of the Reference Index on Page MLHKU (Reuters) and on Page MLHK8 (Bloomberg), or such other information publication service as the Reference Index Sponsor may, in its sole discretion, select.

A more complete description of the Reference Index is contained in the Global Note and is available to an investor upon request by contacting (i) the Calculation Agent by telephone at 1-800-361-3670 or by e-mail at StructuredProductsCanada@exchange.ml.com prior to the Issue Date, or (ii) the investor's investment advisor.

Rebalancing

Initially, the Reference Index will have an 80% exposure to the China Dragon Index. Thereafter (provided that a Final Rebalancing Event has not occurred), the Reference Index may be rebalanced in accordance with a pre-determined rebalancing procedure summarized below, pursuant to which: (i) as the level of the Reference Index rises, the Reference Index is rebalanced so that it consists of more Market Asset Units (up to a maximum of 150% through the use of leverage); and (ii) as the level of the Reference Index falls, the Reference Index is rebalanced in accordance with the investment strategy to consist of more Reserve Asset Units, so that the targeted minimum level of the Reference Index may be attained.

On each Exchange Business Day, the Index Sponsor will calculate the level of the Reference Index, the "Floor Level", the "Cushion" and the "Theoretical Exposure" and also determine whether a rebalancing is required on that date (a "Rebalancing Date"). If a rebalancing is required (and provided that a Final Rebalancing Event has not occurred), then on the immediately following Exchange Business Day, the

amounts of the constituents of the Reference Index will be adjusted (in accordance with certain formulae set out in Schedule 1 of the Global Note) in order to bring the weighting of the Market Asset Units into line with that indicated by the "Theoretical Exposure" on such Rebalancing Date. The "Cushion" is the excess of the level of the Reference Index over the Floor Level on a day. The "Floor Level", in relation to any Exchange Business Day, is the notional aggregate offer price of the number of Reserve Asset Units theoretically required as at such Exchange Business Day to produce a redemption amount equal to the minimum level of the Reference Index on the Index Maturity Date targeted as of such Exchange Business Day, plus the Management Fee in respect of the remaining term of the Reference Index. The "Theoretical Exposure", in relation to any Exchange Business Day, is the theoretical percentage weighting of the Market Asset Units on such day, and is calculated as the product of (i) the Trading Multiple on such day, and (ii) the ratio of the Cushion on such day and the Reference Index Level on such day, expressed as a percentage, but subject to a maximum of 150% and a minimum of 0%. The "Trading Multiple" is a number within a range, the lower end of which is one and the upper end of which will be determined on the Issue Date of the Notes by the Reference Index Sponsor. The Trading Multiple is used in the calculation of the Theoretical Exposure on any Exchange Business Day. A higher Trading Multiple will result in a higher Theoretical Exposure. The Reference Index Sponsor will adjust the Trading Multiple within the range during the term of the Reference Index. A rebalancing will be required on a day if:

- (a) the Cushion on such day is greater or less than the Cushion on the immediately preceding Rebalancing Date (or, if none, March 23, 2004) by 15% of such earlier Cushion;
- (b) the targeted minimum level of the Reference Index on the Index Maturity Date on such day is greater than that in relation to the immediately preceding Exchange Business Day;
or
- (c) none of the three consecutive calendar days (none being a Saturday or Sunday) following the Exchange Business Day immediately following such day is scheduled to be an Exchange Business Day.

The Reference Index also incorporates a feature that if a Final Rebalancing Event (described below) occurs, then, following the first occurrence of such an event, (i) no further rebalancing of the Reference Index will take place, (ii) the Reference Index shall thereafter be constituted solely of Reserve Asset Units (regardless of the future performance of the China Dragon Index), (iii) changes in the China Dragon Index will no longer affect the level of the constituents or the Reference Index, and (iv) for the remaining term of the Reference Index, the level of the Reference Index will be approximately equal to the notional aggregate offer price of the number of Reserve Asset Units theoretically required to produce a redemption amount equal to the targeted minimum level of the Reference Index on the Index Maturity Date, plus the Management Fee in respect of the remaining term of the Reference Index, as determined by the Reference Index Sponsor. (The term of the Reference Index and the term of the Note are not the same as the Index Maturity Date is scheduled to occur five Business Days prior to the Maturity Date of the Notes.) A "Final Rebalancing Event" will occur on a day, if any, on which the Cushion first falls to zero (which will occur in the situation where the level of the Reference Index falls to the extent that the Reference Index must thereafter comprise solely Reserve Asset Units in order to ensure that the Reference Index may attain the targeted minimum level on the Index Maturity Date).

Certain Definitions Relating to the Reference Index

"Business Day" means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange houses are open for business in Hong Kong and Toronto.

"Exchange Business Day" means a day which is (a) a Business Day, and (b) a day (a "Stock Exchange Business Day") on which the relevant stock exchanges in respect of all securities comprising the China Dragon Index are open for business or were expected to be open for business as at the close of the immediately preceding Stock Exchange Business Day.

"Market Disruption Event" means the occurrence or existence on any Exchange Business Day of any Market Asset Disruption Event, or any event outside of the control of the Reference Index Sponsor which (in the determination of the Reference Index Sponsor) would have the effect of preventing the Reference Index Sponsor from holding or effecting transactions in the Reserve Asset Units, or that of materially increasing the cost to the Reference Index Sponsor (whether or not in the form of any tax or charge) of doing so, on that Exchange Business Day.

"Market Asset Disruption Event" means any of the following:

- (a) at any time, in relation to any principal exchange or market (the "Market Asset Exchange") for a security forming part of the constituents of the China Dragon Index (the "Market Asset Security"), any event outside the control of the Reference Index Sponsor which (in the determination of the Reference Index Sponsor) would have the effect of preventing the Reference Index Sponsor from,
 - (i) converting Canadian dollars into U.S. dollars, or vice versa;
 - (ii) converting U.S. dollars into the local currency of such market or exchange, or vice versa;
 - (iii) transferring of U.S. dollars or such local currency within, to or from accounts in the jurisdiction in which such market or exchange operates; or
 - (iv) holding or effecting transactions in any Market Asset Securities or related futures or options contracts listed or traded on such market or exchange;or have the effect of materially increasing the cost to the Reference Index Sponsor (whether or not in the form of any tax or similar charge) for effecting any of the foregoing;
- (b) on any Exchange Business Day, in relation to any Market Asset Exchange, such market or exchange fails to remain open for regular trading for at least the number of trading hours for which such market or exchange was scheduled (as of the close of trading on the immediately preceding Exchange Business Day) to be open for such trading; or
- (c) on any Exchange Business Day, in relation to any Market Asset Security and any Market Asset Exchange relating thereto:
 - (i) any suspension or limitation imposed by such market or exchange or otherwise on the trading of such Market Asset Security or related futures or options

contract thereon (whether or not by reason of movements in price exceeding limits permitted by such market or exchange); or

- (ii) any event beyond the control of the Reference Index Sponsor which (in the determination of the Reference Index Sponsor) disrupts or impairs the ability of market participants in general to effect transactions in, or obtain market values for, such Market Asset Security or related futures or options contracts on such market or exchange.

Disclaimer

While the Reference Index Sponsor currently employs the above described methodology to calculate the Reference Index, the Reference Index Sponsor may, in its absolute discretion, modify such methodology for the purposes of (i) curing any ambiguity or correcting or supplementing any provision herein, (ii) following any change in the basis on which any information is calculated or provided or howsoever otherwise where such change would materially change the commercial effect of any provision or provisions herein, amending any provision or provision herein if such amendment is for the purpose of mitigating the effect of such change, or (iii) replacing any information provider or information source named herein or any previous replacement information provider or source.

Where the Reference Index Sponsor is described herein as making or being able to make a decision, it may do so in its sole discretion, acting in good faith and in a commercially reasonable manner.

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THE CHINA DRAGON INDEX

The following is a summarized description of the China Dragon Index and is subject to, and should be read in conjunction with, the more detailed information set out in Schedule 3 of the Global Note.

General

The China Dragon Index is an adjusted market capitalization weighted index of 30 stock exchange listed securities. The securities selected consist of stocks of companies from the People's Republic of China, Hong Kong, Macau, Taiwan and Singapore, which companies have (i) a market capitalization of at least US \$250 million, (ii) a 21-day average trading turnover of at least US \$1 million, and (iii) more than 25% of their revenues being generated from, or more than 25% of their assets located in, the People's Republic of China. The China Dragon Index was created on January 2, 1999 with an initial value of 1,000 and is rebalanced twice a year. The closing level of the China Dragon Index on January 15, 2004 was 1998.48. The China Dragon Index does not reflect a reinvestment of dividend payments on the underlying stocks.

The China Dragon Index is calculated by Merrill Lynch International and is published on Page MLHKK (Reuters) and Page MLEIDRAG (Bloomberg), or such other information publication service as the Market Asset Sponsor may, in its sole discretion, select. For a description of the China Dragon Index, including the methodology for calculating the China Dragon Index, see the Global Note, which is available to an investor upon request by contacting (i) the Calculation Agent by telephone at 1-800-361-3670 or by e-mail at StructuredProductsCanada@exchange.ml.com prior to the Issue Date, or (ii) the investor's investment advisor.

The constitution of the China Dragon Index is subject to adjustment for the following corporate events affecting the underlying securities of the China Dragon Index (the "China Dragon Index Securities"):

- (a) a subdivision, consolidation or reclassification of relevant China Dragon Index Securities (other than a Merger Event as defined in the Global Note) or a free distribution or dividend of any such China Dragon Index Securities to existing holders of the relevant China Dragon Index Securities by way of bonus, capitalization or similar issue;
- (b) a distribution or dividend to existing holders of the relevant China Dragon Index Security of (1) such China Dragon Index Security, or (2) other share capital or securities granting the right to payment of dividends and/or the proceeds of liquidation equally or proportionately with such payments to holders of such China Dragon Index Security, or (3) any other types of securities, rights, warrants or other assets, in each case for payment (in cash or otherwise) at less than prevailing market price as determined by the Market Asset Sponsor;
- (c) an extraordinary dividend;
- (d) a call by an issuer of such China Dragon Index Security ("China Dragon Index Securities Issuer") in respect of a China Dragon Index Security that is not fully paid;
- (e) a repurchase by the China Dragon Index Security Issuer of such China Dragon Index Security, whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise; or
- (f) any other event having, in the opinion of the Market Asset Sponsor, a significant effect on the theoretical value of such China Dragon Index Security.

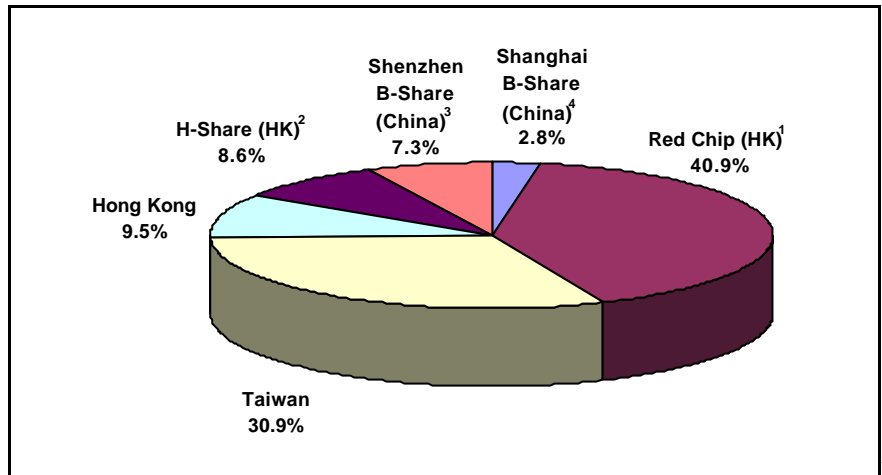
The table on the following page sets forth the 30 securities in the China Dragon Index, and their respective weightings, as at the close of business on January 15, 2004. Under the rebalancing procedures of the China Dragon Index, the securities comprising the China Dragon Index may change substantially during the term of the Notes. See "*Risk Factors – Risk Factors Relating to the China Dragon Index*".

Merrill Lynch China Dragon Index – Constituents as of January 15, 2004

Stock Exchange	Type	Name	Weighting
Hong Kong Stock Exchange	Hong Kong	CITIC Pacific	2.85%
	Hong Kong	Cheung Kong Infr.	2.39%
	Hong Kong	Johnson Electric Hdg.	2.21%
	Hong Kong	Yue Yuen Indl. Hdg.	2.05%
	H-Share	Petrochina Co. 'H'	4.06%
	H-Share	Sinopec Corp. 'H'	3.05%
	H-Share	China Telecom 'H'	1.47%
	Red Chip	China Mobile (HK) Ltd.	21.08%
	Red Chip	CNOOC Ltd.	7.38%
	Red Chip	China Unicom	6.35%
	Red Chip	Denway Motors Ltd.	1.75%
	Red Chip	Legend Holdings Ltd.	1.52%
	Red Chip	COSCO Pacific	1.43%
	Red Chip	China Mrch. Holdings	1.38%
	Shanghai Stock Exchange	Shanghai B-Share	Zhejiang Se Elec. Pwr. 'B'
Shanghai B-Share		Shai.Zhenhua Port Mch. 'B'	0.94%
Shenzhen Stock Exchange	Shenzhen B-Share	China Intl. Marine 'B'	2.03%
	Shenzhen B-Share	Guangdong Elec. 'B'	1.79%
	Shenzhen B-Share	Chongqing Changan Autmb. 'B'	1.46%
	Shenzhen B-Share	Shandong Chenming 'B'	1.13%
	Shenzhen B-Share	Jiangling Motors 'B'	0.93%
Taiwan Stock Exchange	Taiwan	Hon Hai Prec. Inds Co.	5.10%
	Taiwan	Nan Ya Plastics	4.29%
	Taiwan	China Steel	3.69%
	Taiwan	Formosa Plastics	3.69%
	Taiwan	Formosa Chemical & Fiber	3.35%
	Taiwan	Quanta Computer	3.26%
	Taiwan	Mediatek	2.99%
	Taiwan	Asustek Computer	2.57%
Taiwan	Compal Eltn.	2.00%	

The following charts set forth the share type weight distribution and the sector weight distribution of the constituents of the China Dragon Index as of January 15, 2004.

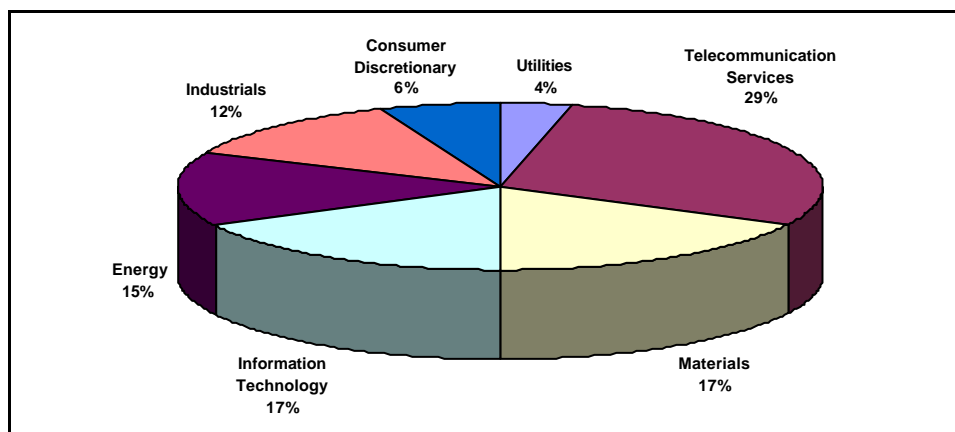
Chart 1: Share Type Weight Distribution as of January 15, 2004



Source: Merrill Lynch

- (1) Red Chip (HK) are shares of companies with their headquarters and operations in the People's Republic of China (excluding Hong Kong and Macau) that are listed in Hong Kong.
- (2) H-Shares (HK) are shares of companies incorporated in the People's Republic of China (excluding Hong Kong and Macau) that are listed in Hong Kong.
- (3) Shenzhen B-Share are shares of companies incorporated in the People's Republic of China (excluding Hong Kong and Macau) that are listed in Shenzhen.
- (4) Shanghai B-Share are shares of companies incorporated in the People's Republic of China (excluding Hong Kong and Macau) that are listed in Shanghai.

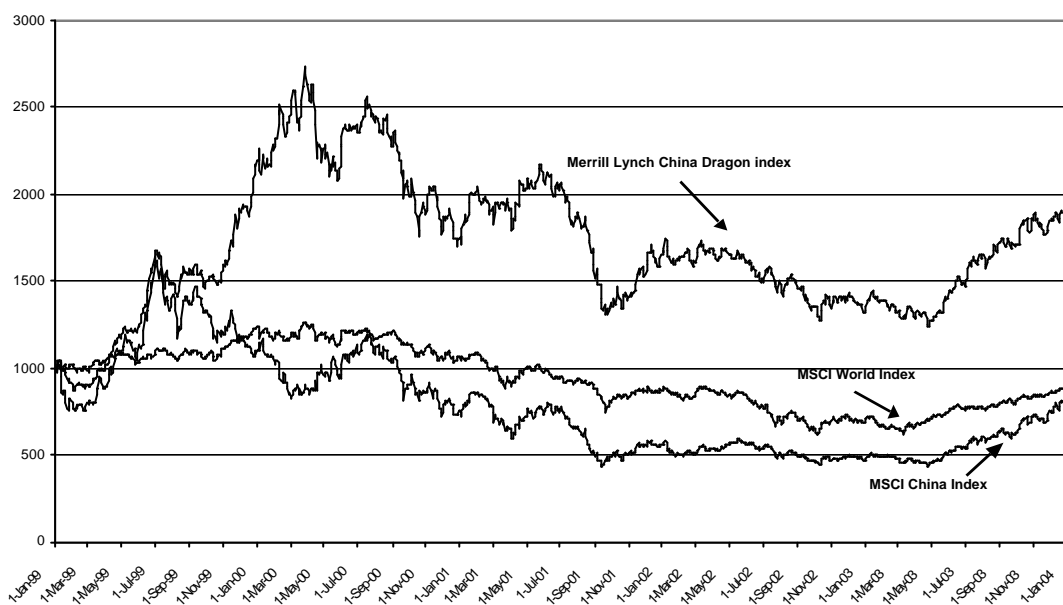
Chart 2: Sector Weight Distribution as of January 15, 2004



Source: Merrill Lynch

The following graph sets forth the levels of the China Dragon Index, MSCI World Index and MSCI China Index in the period from January 1, 1999 through January 1, 2004. This historical data on the China Dragon Index is not necessarily indicative of the future performance of the China Dragon Index or what the value of the Notes may be. Any historical upward or downward trend in the level of the China Dragon Index during any period set forth below is not an indication that the China Dragon Index is more or less likely to increase or decrease at any time during the term of the Notes.

**Performance of the Merrill Lynch China Dragon Index,
MSCI World Index and MSCI China Index since January 1999⁽¹⁾**



Source: Bloomberg

⁽¹⁾ Levels of the Merrill Lynch China Dragon Index, MSCI World Index and MSCI China Index have been "normalized" for comparison purposes only.

Disclaimer

While the Market Asset Sponsor currently employs the above described methodology to calculate the China Dragon Index, the Market Asset Sponsor may, in its absolute discretion, modify such methodology for the purposes of (i) curing any ambiguity or correcting or supplementing any provision herein, (ii) following any change in the basis on which any information is calculated or provided or howsoever otherwise where such change would materially change the commercial effect of any provision or provisions herein, amending any provision or provision herein if such amendment is for the purpose of mitigating the effect of such change, or (iii) replacing any information provider or information source named herein or any previous replacement information provider or source.

Where the Market Asset Sponsor is described herein as making or being able to make a decision, it may do so in its sole discretion, acting in good faith and in a commercially reasonable manner.

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DESCRIBED OR REFERRED TO IN THIS INFORMATION STATEMENT. IN PARTICULAR (AND WITHOUT LIMITATION), NO SUCH WARRANTY, REPRESENTATION OR UNDERTAKING IS SO MADE OR GIVEN AS TO THE PUBLISHING OR ANNOUNCING OF THE LEVEL OF THE REFERENCE INDEX, THE RESULTS TO BE OBTAINED FROM THE USE OF THE CHINA DRAGON INDEX, THE LEVEL OF THE CHINA DRAGON INDEX OR THE CONSTITUENT(S) OF THE CHINA DRAGON INDEX, AT ANY PARTICULAR TIME. THE CHINA DRAGON INDEX IS COMPILED AND CALCULATED BY MERRILL LYNCH INTERNATIONAL. HOWEVER, MERRILL LYNCH INTERNATIONAL SHALL NOT BE LIABLE (WHETHER IN NEGLIGENCE OR OTHERWISE) TO ANY PERSON FOR ANY ERROR THEREIN NOR SHALL IT BE UNDER ANY OBLIGATION TO ADVISE ANY PERSON OF ANY ERROR THEREIN.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Agent, the Notes will be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans within the meaning of the *Income Tax Act* (Canada) (other than a deferred profit sharing plan to which payments are made by BDC or a corporation with which BDC does not deal at arm's length) and will not constitute foreign property for purposes of Part XI of that Act.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Placement Agent, the following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable to the acquisition, holding and disposition of Notes by a Noteholder pursuant to this offering. This summary is applicable to a Noteholder who is an individual (other than a trust) and who, for the purposes of the *Income Tax Act* (Canada) (the "Act"), is a resident of Canada and deals at arm's length with and is not affiliated with BDC. This summary further assumes that the Noteholder does not hold the Notes in the course of carrying on a business and that the Notes are acquired by the Noteholder without the intention or secondary intention of selling them prior to the Maturity Date and that the Notes are therefore capital property to the Noteholder. A Holder who is not a trader or dealer in securities may consider making a one-time election to treat the Notes, and all other Canadian securities, as defined in the Act, owned by the Holder in that or subsequent taxation years, as capital property. This summary does not apply to a Noteholder that is a corporation, partnership or trust.

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

This summary is not exhaustive of all possible Canadian federal tax considerations applicable to an investment in Notes. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any Noteholder. Noteholders are urged to consult their own tax advisors for advice with respect to the potential income tax consequences to them of an investment in Notes, having regard to their particular circumstances and the uncertainties with respect to the operation of the Act as noted below.

Holding Notes

No interest is stipulated to be payable in respect of the Notes and the amount payable in respect of the Notes will depend on the Index Level at the Maturity Date. Accordingly, the Notes will be prescribed debt obligations for purposes of the rules in the Act which provide for the accrual of notional interest. However, provided that a Lock-In Event has not occurred so that the entitlement of a Noteholder in respect of the Notes is indeterminate, the Noteholder should not be required to include any amount in computing income for any taxation year during which the Noteholder holds, and has not disposed of, the Notes. Where a Lock-In Event has occurred and the Noteholder has not disposed of the Notes, generally it is not clear whether the amount representing the difference between the Minimum Redemption Amount payable at the Maturity Date and the Issue Price will have to be accrued to the Noteholder over the term of the Notes. In addition, the CCRA's published administrative practices have not directly addressed this situation. However, the Noteholder should generally be able to take the position in applying the prescribed debt obligation rules that the entitlement of the Noteholder continues to be indeterminate so that it is therefore not possible to compute any maximum interest or other amount payable to the Noteholder and thus no amount is required to be included in computing income solely as a result of the Lock-In Event.

Disposition of Notes

Upon the redemption of a Note at the Maturity Date or earlier, a Noteholder should be required to include in computing income for the year of disposition the amount by which the redemption price exceeds the purchase price to the Noteholder. The CCRA has not expressed any opinion on whether amounts received by a Holder on a sale or other disposition of a Note prior to the Maturity Date would be considered to be on capital account or income account. However, if a Note is held as capital property as assumed above, the Holder should realize a capital gain (or capital loss) on the disposition of the Note equal to the amount by which the proceeds of disposition determined for tax purposes net of any reasonable costs of disposition exceed (or are exceeded by) adjusted cost base of the Note to the Holder. Holders who dispose of a Note prior to the Maturity Date, particularly those who dispose of Notes within a short period of time before the Maturity Date or where a Lock-In Event has occurred, should consult their own tax advisors with respect to such disposition.

One-half of any capital gain (a "taxable capital gain") realized on a disposition of a Note will be included in the Noteholder's income and one-half of any capital loss (an "allowable capital loss") realized on a disposition of a Note may be deducted from taxable capital gains in accordance with the provisions of the Act.

Capital gains realized by an individual may give rise to alternative minimum tax under the Act.

RISK FACTORS

The following section does not describe all of the risks and other ramifications of an investment in the Notes, including risks resulting from the amounts payable in respect thereof being determined by reference to the Reference Index. BDC and MLC disclaim any responsibility to advise prospective investors of such risks as they exist at the date of the Information Statement or as they change from time to time. Prospective investors should consult their own financial and legal advisors about risks associated with an investment in the Notes and the suitability of investing in the Notes in light of their particular circumstances. In particular, the Notes may not be an appropriate investment for investors who are unsophisticated with respect to such transactions.

Investment in the Notes carries with it a degree of risk including, but not limited to, the risks referred to below. There can be no assurance that the Reference Index will achieve its investment objectives. The value of the Reference Index and the assets comprised therein may go down as well as up. Prospective investors may receive an amount less than their initial investment if the Notes are redeemed prior to the Maturity Date of the Notes. Past performance of the China Dragon Index is not necessarily indicative of future performance of the China Dragon Index. Past performance of the Reference Index I is not necessarily indicative of the future performance of the Reference Index for the Notes offered hereby.

Risk Factors Relating to Investment in the Notes

Rebalancing

The Reference Index replicates the value of a basket of assets whose weighting is adjusted, according to the rebalancing procedures, as described herein and in the Global Note, between Market Asset Units and Reserve Asset Units. Under the rebalancing procedures, the weighting of the Market Asset Units may potentially increase as the level of the Reference Index increases and may potentially decrease as the level of the Reference Index decreases. Changes in the weighting of the Market Asset Units (and the frequency and number of such changes) may affect the Reference Index on the Index Maturity Date which in turn may affect the Final Redemption Amount.

Partial Profit Lock -In Feature

The mechanics of the Reference Index incorporate a partial profit lock-in feature which provides some protection to any interim rises in the level of the Reference Index from subsequent falls in value of the Market Asset Unit. However, this feature means that, as profits are locked in, it is more likely that a higher percentage of the value of the Reference Index will be attributable to the Reserve Asset. This will reduce the exposure of the Reference Index to the Market Asset Units and, in a rising market, this may result in a lower ending level of the Reference Index, compared to an index which does not have a partial profit lock-in feature.

Fee Accrual

Fees and expenses will reduce the Final Redemption Amount payable to Noteholders. The Final Redemption Amount, payable on the Maturity Date, is dependent upon the level of the Reference Index on the Index Maturity Date.

Merrill Lynch International and its affiliates will receive the Management Fee through a reduction in the level of the Reference Index on a daily basis (calculated on the basis of a year of 360 days) at a fixed rate annum calculated as a percentage of the prevailing level of the Reference Index. Such fixed rate will be 1.8% per annum; however, after a Final Rebalancing Event (as defined under "*Payment Under the Notes*" above), the rate will be 1.8% per annum for the period from March 23, 2004 to March 23, 2008 (inclusive), and 0.6% per annum thereafter. Accordingly, the amount of the Management Fee will decrease if the level of the Reference Index falls during the term of the Note and will increase if the level of the Reference Index rises during the term of the Note.

The effect of the foregoing is that the level of the Reference Index on the Index Maturity Date will be less than that of an index which does not incorporate such a fee, but which is otherwise identical to the Reference Index.

The Management Fee is also taken into account in the calculation of the Floor Level. The effect of this is that the likelihood of a rebalancing event occurring and the extent of the resulting allocation to Reserve Asset Units and away from Market Asset Units, as well as the likelihood of a Final Rebalancing Event

occurring, are higher than those in relation to an index which does not incorporate such a fee, but which is otherwise identical to the Reference Index.

Impact of Upfront Commissions on Return to Noteholders

The Reference Index will have an initial level of 94.5, which has been set to reflect the upfront commission of 5.5% of the Principal Amount of each Note payable to the Selling Agents (4%) and the Placement Agent (1.5%) in connection with the sale of the Notes. As a result, the Final Reference Index Level on the Index Maturity Date must be greater than 100 (or 5.82% higher than the initial level of the Reference Index) in order for investors to receive a Final Redemption Amount greater than the Principal Amount of the Note. If the level of the Reference Index declines or does not increase above 100, investors will receive only the Principal Amount of the Notes on the Maturity Date and therefore will not have earned any return on their investment.

Leverage

The Reference Index may have as much as 150% of the assets allocated to the Market Asset Units. Exposure above 100% requires the use of leverage. This leverage offers the potential for significant profits but also entails a high degree of risk, including the risk of substantial or even total loss of the value of the Market Asset Units. In addition, high volatility of the Market Asset Units or low interest rates during the life of the investment may lead to a reduction in the possible return on the investment due to the occurrence of more frequent events that require the adjustment of the allocation among Market Asset Units and Reserve Asset Units (i.e., rebalancing), which may adversely affect the value of the Reference Index and, therefore, the Final Redemption Amount.

Yield

The Final Redemption Amount of the Notes payable to a Noteholder on the Index Maturity Date may represent a yield less than the yield an investor would earn if the investor bought a standard debt security with the same stated maturity date (see " – *Non-Conventional Notes*" below).

Due to the protection features of the Reference Index and the exposure of the Reference Index to the Reserve Asset Units, it is possible that the upside performance of the China Dragon Index will exceed that of the Reference Index.

Non-Conventional Notes

The Notes are not conventional notes in that they do not provide Noteholders with a return or income stream prior to the Maturity Date, or a return at maturity calculated with reference to a fixed or floating rate of interest that is determinable prior to the Maturity Date. Noteholders will not have an opportunity to reinvest any income generated by their investment in the Notes prior to the Maturity Date, nor will they be able, prior to maturity, to determine the amount of the yield or return, if any, that they will receive on the Maturity Date. There can be no assurance that the Notes will be redeemed above the Minimum Redemption Amount. 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 future payments. Accordingly, an investment in the Notes may result in a lower return when compared to alternative investments. The Notes do not constitute deposits that are insured under the *Canada Deposit Insurance Corporation Act*.

Loss of Guaranteed Minimum Redemption Amount

There are two circumstances in which the terms and conditions of the Notes do not provide for a guaranteed return equivalent to the Minimum Redemption Amount. Firstly, if an Extraordinary Event occurs and the Early Redemption Amount would be equal to or greater than the Principal Amount of the Note at that time, BDC may (but shall not be obligated to) to redeem the Notes and the Noteholder will receive the Early Redemption Amount, which is equal to the market value of the Notes as calculated by the Calculation Agent, less an amount equal to the Associated Costs. In that case, the Noteholder will be entitled to receive on redemption at least the Principal Amount of the Note. Secondly, if an Extraordinary Event occurs and the Early Redemption Amount would be less than the Principal Amount of the Note, BDC is not entitled to redeem the Notes. In that case the Note will, in effect, be delinked from the Reference Index and the Noteholder will receive at the Maturity Date the Principal Amount of the Note plus an amount, if any, notionally earned on the Early Redemption Amount of the Note in excess of the Principal Amount of the Note, which will be based on an interest rate reflecting the relevant Government of Canada bond yield.

No Entitlement to Assets Which Comprise the Reference Index

The Notes are obligations of BDC. By purchasing a Note, a Noteholder will not be entitled to any rights with respect to any assets which comprise the Reference Index or its constituents including, without limitation, the securities that may comprise the China Dragon Index.

Market Disruption Event

The due date for repayment of the Notes may be delayed if a Market Disruption Event occurs at a time when the valuation of the Market Asset Units would otherwise occur. If valuation has to be made at a time when a Market Disruption Event has occurred and is continuing, the value of the Market Asset Units may be low or nil.

Conflicts of Interest

MLC, Merrill Lynch International and their affiliates may face possible conflicts of interest in connection with their duties under the Notes. For example, Merrill Lynch International and their affiliates may engage in investment banking and other activities for or provide services to the companies whose securities comprise the Market Asset Units or trade in the underlying securities that comprise the China Dragon Index or in the Series 1 Notes or in other financial instruments linked thereto for their own account or for the account of others. All of these activities may result in conflicts of interest with respect to the financial interests of MLC, Merrill Lynch International and their affiliates.

Liquidity Risk

No representation is made as to the existence of a market for the Notes. While MLC intends under ordinary market conditions to indicate prices in the Notes, there can be no assurance as to the prices that would be indicated or that MLC will offer to purchase Notes. The price given, if any, will be affected by many factors including, but not limited to, the remaining term and outstanding principal amount of the Notes, the performance of the Reference Index, interest rates, fluctuations in exchange rates, volatility or illiquidity of the assets and positions comprising the China Dragon Index and credit spreads. Consequently, prospective investors must be prepared to hold the Notes for an indefinite period of time or until the redemption or maturity of the Notes.

Credit Risk

Investors in the Notes should have such knowledge and experience in financial and business matters and expertise in assessing credit risk and be capable of evaluating the merits, risks and suitability of investing in the Notes, including any credit risk associated with BDC.

The Notes will constitute direct unconditional obligations of BDC 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, as among themselves, the Notes will rank *pari passu* and will be payable rateably without any preference or priority. The Notes will not constitute deposits that are insured under the *Canada Deposit Insurance Corporation Act*. The likelihood that the Noteholders will receive the payment owing to them in connection with the Notes will be dependent upon the financial health and creditworthiness of BDC.

The Notes May Trade at a Discount

The Notes may trade at a discount to (i) the value of the Reference Index, (ii) the value of the China Dragon Index, and/or (iii) to their principal amount.

Structure Risks

An investment in the Notes will entail significant risks not associated with a conventional fixed rate or floating rate debt security. Such risks include, without limitation, changes in the level or value of the Reference Index and the possibility that a Noteholder will receive on any early redemption or as a result of an Extraordinary Event a lower (or no) amount of premium or other consideration than the holder expected.

BDC has no control over a number of matters that are important in determining the existence, magnitude and longevity of such risks and their results, including economic, financial and political events.

Exchange Rates

The Reference Index is denominated in Canadian dollars. However, the equity securities underlying the China Dragon Index are denominated in foreign currencies, such as U.S. dollars, Hong Kong dollars, New Taiwan dollars, Singapore dollars and potentially Chinese renminbi. Accordingly, fluctuations in the value of the Canadian dollar against those currencies may have a significant effect (either positive or negative) on the value of the Reference Index. See also the currency fluctuation risks described in "*International Operations*" below.

Taxation

Each Noteholder will assume and be responsible for any and all taxes of any jurisdiction or governmental or regulatory authority, including, without limitation, any provincial, state or local taxes or other like assessment or charges that may be applicable to any payment to it in respect of the Notes. See "*Canadian Federal Income Tax Considerations*". Prospective investors should consult their own tax advisors concerning the tax consequences of investing in the Notes.

BDC may not, in certain circumstances, pay additional amounts to the Noteholders to reimburse them for any tax, assessment or charge required to be withheld or deducted from payments in respect of the Notes by BDC or any Paying Agents.

Diversification

The investment portfolio of a Noteholder may not benefit from an investment in the Notes unless the Notes are profitable and provide returns that are independent from bond and stock returns.

Risk Factors Relating to the China Dragon Index

No Guarantee as to the Performance of the China Dragon Index

None of BDC, MLC or Merrill Lynch International gives any assurance or guarantee as to the performance of the China Dragon Index. Investors should not conclude that the sale by BDC of the Notes is any form of investment recommendation by any of the aforementioned entities.

Adjustment for Corporate Events

The constitution of the China Dragon Index is subject to adjustment for the corporate events affecting the China Dragon Index Securities described herein. However, these adjustments do not cover all corporate events that could affect the market price of the China Dragon Index Securities. The occurrence of any other event not described herein may adversely affect the value of the Reference Index and the determination of the market price and trading value of the Notes.

Temporary Price Fluctuations in the China Dragon Index Securities

Large volumes of purchasing and selling activity, which may occur in connection with the initial issuance of the Notes, could temporarily increase or decrease the market price of one or more of the China Dragon Index Securities, resulting in a higher or lower price on that date. Purchasing or selling activity of the China Dragon Index Securities in the secondary trading market may also affect the market price of such China Dragon Index Securities. This purchasing or selling activity could create a temporary imbalance between the supply and demand of the China Dragon Index Securities, by increasing or decreasing the demand for the China Dragon Index Securities, and accordingly, limit the liquidity of the China Dragon Index Securities. Prices for the China Dragon Index Securities may rise or decline after these sales and purchases as the volume of purchases subsides. This in turn may have an immediate effect on the trading price of the Notes.

Initial China Dragon Index Securities

The China Dragon Index Securities comprising the China Dragon Index may change substantially during the term of the Notes. In particular, it is possible that the securities initially comprising the China Dragon Index will increase substantially in value prior to the Index Maturity Date but that the China Dragon Index will decline in value during such period because the securities underlying the China Dragon Index are rebalanced every six months. Investors should have regard to this when considering the importance of the identity of the initial China Dragon Index Securities.

International Operations

The international operations of some China Dragon Index Securities Issuers may expose them to risks associated with instability and changes in economic and political conditions, foreign currency fluctuations, changes in foreign regulations and other risks inherent to international business. The risks of international business that the companies are exposed to include the following:

- general economic, social and political conditions;

- the difficulty of enforcing intellectual property rights, agreements and collecting receivables through foreign legal systems;
- differing tax rates, tariffs, exchange controls or other similar restrictions;
- currency fluctuations; and
- changes in, and compliance with, domestic and foreign laws and regulations, particularly those which affect telecommunications carriers and service providers, which impose a range of restrictions on operations, trade practices, foreign trade and international investment decisions.

Activities on the Stock Exchanges of the Asia -Pacific Region

The China Dragon Index Securities have been issued by companies listed on certain stock exchanges in Asia. The Notes therefore involve certain risks inherent in investments in the Asian securities markets. Such securities markets have been and may continue to be more volatile than other securities markets (e.g. North American markets) and may be affected by market developments in different ways than other securities markets. Stock exchanges in Asia in general have identified problems such as market manipulation, insider trading and payment defaults, and governments concerned have from time to time intervened in the securities market by purchasing securities listed on the relevant stock exchange. Direct or indirect intervention by domestic or foreign governments or regulatory agencies or entities thereof to stabilize a particular securities market and cross-shareholdings in companies in such markets may affect prices and volume of trading in those markets.

Regulatory and Fiscal Uncertainties

The equity markets within the Asia-Pacific region have been subject to regulatory and fiscal uncertainties and restrictions. The Notes do not offer any protection against these conditions and prospective investors should be aware that the value of the China Dragon Index Securities may be adversely affected as a result of these uncertainties and restrictions. For example, if a government or regulatory authority restricts trading in the China Dragon Index Securities within a country in Asia or imposes any capital controls or restrictions, the values of the China Dragon Index Securities from such country at such time may be zero.

Unrelated Jurisdictions or Markets

China Dragon Index Securities Issuers may generate revenues and have assets in jurisdictions or markets other than the People's Republic of China (the "PRC"). In some cases, these assets or revenues could represent the dominant factor affecting the market price of such China Dragon Index Security. There can be no assurance that the other jurisdictions or markets in which such companies are engaged will not have an adverse effect on the company's businesses or financial condition. In addition, changes in regulation in such other jurisdictions or markets may expose such China Dragon Index Securities Issuers to business risks with which they have less experience than with those business risks associated with their businesses in the PRC.

Diversification

China Dragon Index Securities Issuers may be industry or sector concentrated or exposed to a concentration of risk in one or more countries in Asia other than the PRC.

Risks Relating to the People's Republic of China

Assets located in the PRC may be adversely affected by political, social or legal uncertainties or changes in the PRC. The PRC government has been reforming its economic and political systems since the late 1970s. The continued implication of reforms may be influenced by internal political, social and economic factors. Changes in political, economic and social conditions in PRC, adjustments in policies of the PRC government or changes in laws and regulations could adversely affect the value of the China Dragon Index Securities. The PRC is a rapidly developing economy. As a result, it will be exposed to similar risks to any other rapidly developing economy.

Changes in the PRC's Political and Economic Policies

The economy of the PRC has historically been a planned economy subject to governmental plans and quotas and has, in certain aspects, been transitioning to a more market-oriented economy. The future direction of these economic reforms or the effects these measures may have on the value of the Reference Index cannot be reliably predicted. In addition, the PRC economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development ("OECD"). These differences include:

- economic structure;
- level of government involvement in the economy;
- level of development;
- level of capital reinvestment;
- control of foreign exchange;
- inflation rates; and
- methods of allocating resources.

As a result of these differences, businesses may not develop in the same way or at the same rate as might be expected if the PRC economy were similar to those of the OECD member countries.

Restrictions on Currency Exchange

Any future restrictions on currency exchange of foreign currencies in which the China Dragon Index Securities are traded, including Hong Kong dollars, New Taiwan dollars and Singapore dollars, or changes in the exchange rate of the Chinese renminbi may have a significant adverse effect on the value of the Reference Index. Although the PRC government introduced regulations in 1996 to allow greater convertibility of the renminbi for current account transactions, significant restrictions still remain. It is not certain that the PRC regulatory authorities will not impose more stringent restrictions on the convertibility of the renminbi, especially with respect to foreign exchange transactions.

Liberalization as a Result of Entry to World Trade Organization

Effective December 11, 2001, the PRC became a member of the World Trade Organization ("WTO"). China's WTO commitments require it to lift certain restrictions that prohibit foreign companies from undertaking certain activities in or connected with the PRC. Such liberalization and amendments to PRC legislation to reflect the PRC's agreed WTO commitments may result in the loss of benefits to China Dragon Index Securities Issuers from special policies and measures and lead to additional competition in the future. This may adversely affect the value of some or all China Dragon Index Securities.

Risks Relating to Classes of PRC Shares

At any time, the Reference Index may include securities of companies incorporated in Mainland China, that is, the PRC excluding Hong Kong and Macau. The only shares of companies incorporated in Mainland China (a "Mainland Company") currently eligible for inclusion in the China Dragon Index are the "B" shares listed in Shanghai and Shenzhen ("B" shares) and the shares of a Mainland Company listed in Hong Kong ("H" shares), New York ("N" shares) or other non-PRC stock exchanges. The larger domestic "A" share market (comprising securities which are denominated and payable in renminbi) is currently restricted to Mainland China residents and Qualified Foreign Institutional Investors pursuant to the Provisional Measures on Administration of Domestic Securities Investments of Qualified Foreign Institutional Investors promulgated on November 5, 2002. Such shares listed on such market are not currently included in the China Dragon Index. Merrill Lynch International, the compiler and calculator of the China Dragon Index, has stated that it intends, in its discretion, to include "A" shares in the China Dragon Index if it determines that non-Mainland residents are permitted to acquire "A" shares in a manner, and to the extent, deemed acceptable by Merrill Lynch International.

At a particular time, the value attributed to the one class of shares of a Mainland Company which does not form part of the Reference Index may be greater than the value attributed to another class which does form part of the Reference Index. Accordingly, the appreciation in the value of the Reference Index could be greater if the Reference Index had included another class of shares of a Mainland Company instead of the class of shares of that company actually forming part of the Reference Index.

Risks Relating to Hong Kong

As of July 1, 1997, Hong Kong ceased to be a colony of the United Kingdom and became the Hong Kong Special Administrative Region of the PRC. Although the Sino-British Joint Declaration on the question of Hong Kong and the Basic Law of Hong Kong provide that Hong Kong will have a high degree of legislative, judicial and economic autonomy, there can be no assurance that the value of the Reference Index, which may from time to time include securities that are listed on the Stock Exchange of Hong Kong, will not be adversely affected as a consequence of the exercise of PRC sovereignty over Hong Kong. In addition, political and social developments in the PRC have from time to time adversely affected the Hong Kong economy.

Risks Relating to Taiwan

Taiwan has a unique international political status. The PRC asserts sovereignty over Taiwan and does not recognize the legitimacy of the Taiwanese government. Although significant economic and cultural relations have been established during recent years between Taiwan and the PRC, the PRC government has indicated that it may use military force to gain control over Taiwan if Taiwan declares independence or indefinitely delays progress towards unification as well as if any foreign power interferes in Taiwan's affairs. The Taiwan Stock Exchange is particularly volatile during times of political instability, such as when relations between Taiwan and the PRC are strained. Relations between Taiwan and the PRC and other factors affecting the political or economic condition of Taiwan could substantially impact the value of the China Dragon Index, which may from time to time include stocks that are listed on the Taiwan Stock Exchange.

Risks Relating to Capital Controls and Imposition of Taxes

If a holder of a China Dragon Index Security would suffer any capital gains tax, other tax, duty, levy, fee or any other cost, this may adversely affect the value of the Reference Index.

The Interpretation and Enforcement of PRC Laws and Regulations is Subject to Some Uncertainty

The PRC legal system is based on statutory law. Under this system, prior court decisions may be cited as persuasive authority but do not have binding precedential effect. Since 1979, the PRC government has been developing a comprehensive system of commercial laws and considerable progress has been made in the promulgation of laws and regulations dealing with economic matters, such as corporate organization and governance, foreign investments, commerce, taxation and trade. In particular, the regulatory framework for the securities industry in China is at an early stage of development. The China Securities Regulatory Commission ("CSRC") is responsible for administering and regulating the national securities markets and drafting regulations for the regulation of the national securities markets. Regulations of the State Council and the relevant implementing measures of CSRC, such as provisions dealing with acquisitions of listed PRC companies and disclosure of information, apply to listed companies in general without being confined to companies listed on any particular stock exchange. Because these laws, regulations and legal requirements are relatively new, and because of the limited volume of published cases and judicial interpretations and the non-binding nature of prior court decisions, the interpretation and enforcement of these laws, regulations and legal requirements involve some uncertainty.

Investor Suitability

Prospective investors should determine whether an investment in the Notes is appropriate in their particular circumstances and should consult with their legal, business and tax advisors to determine the consequences of an investment in the Notes and to arrive at their own evaluation of the investment.

Investment in the Notes is only suitable for investors who:

- (a) have the requisite knowledge and experience in financial and business matters to evaluate the merits and risks of an investment in the Notes;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate such merits and risks in the context of their financial situation;
- (c) are capable of bearing the economic risk of an investment in the Notes for an indefinite period of time; and
- (d) recognize that it may not be possible to dispose of the Notes for a substantial period of time, if at all.

Prospective investors in the Notes should make their own independent decision to invest in the Notes and as to whether the investment in the Notes is appropriate or proper for them based upon their own judgment and upon advice from such advisors as they may deem necessary. Prospective investors in the Notes should not only rely on any communication (written or oral) of BDC or the relevant dealer as investment advice or as a recommendation to invest in the Notes. No communication (written or oral) received from BDC or the relevant dealer shall be deemed to be an assurance or guarantee as to the expected results of the investment in the Notes.