

# THE BANK OF NOVA SCOTIA ARROW MULTI-STRATEGY™ FUND DEPOSIT NOTES, SERIES 1



## INVESTMENT OBJECTIVE

An innovative investment opportunity targeting consistent, positive annual returns, with low volatility and low correlation to major stock and bond market indices. The Notes provide an efficient way to participate in the upside potential of the Arrow Multi-Strategy Fund, combined with the security of a principal repayment guarantee from The Bank of Nova Scotia if held to maturity.

## INVESTMENT FEATURES

### Capital Protection

Your capital is protected from downside volatility in two ways:

- The underlying investment (Arrow Multi-Strategy Fund) is managed as a widely diversified hedged portfolio that has had, as you can see on the chart to the right, a track record of generating positive return in years past.<sup>1</sup>
- The Bank of Nova Scotia guarantees repayment of 100% of your principal if you hold it until maturity, protecting your capital in the event that the investment is worth less at maturity than when you invest.

### Growth Potential

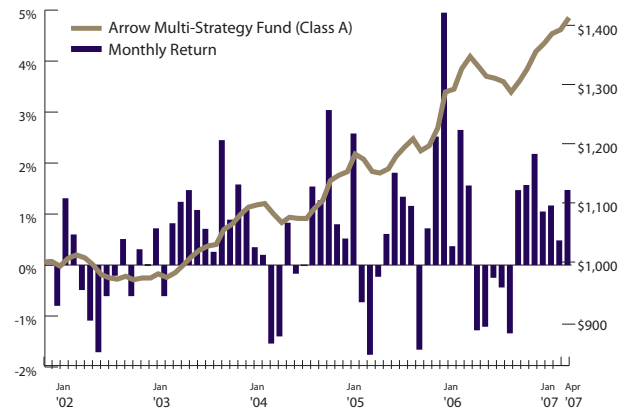
The Arrow Multi-Strategy Fund has generated solid long-term, performance by targeting absolute returns each year. The portfolio, through the use of diverse investment strategies, has the potential to generate positive performance in virtually any market condition.

### Complement an Existing Portfolio

By including the Notes in a diversified portfolio, it may be possible to improve portfolio performance by reducing portfolio risk.

Table A illustrates how the Arrow Multi-Strategy Fund has effectively captured much of the equity market's upside performance (best month) while avoiding large declines (worst month). In fact, the Fund has better downside or "worst month" performance than either stocks or bonds, as illustrated in Table A through a comparison with a select equity and bond index. The Arrow Multi-Strategy Fund complements a traditional balanced portfolio.

Chart A: Historical Performance, April 30, 2007<sup>1</sup>



	1 Month	6 Month	1 Year	3 Year	5 Year	ITD <sup>2</sup>
Arrow Multi-Strategy Fund	1.5%	8.2%	4.9%	9.3%	6.9%	6.7%

Chart B: Enhanced Asset Allocation

\* Asset allocation of Arrow Multi-Strategy Fund as of April 30, 2007

- Equity Hedge 37.6%
- Event Driven 25.3%
- Relative Value 22.1%
- Global Macro 12.2%
- Cash 2.8%

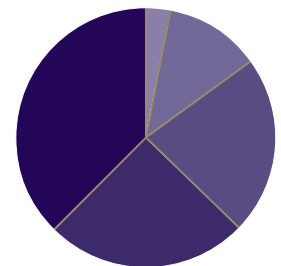


Table A: Risk Analysis<sup>1</sup>

January 2002 to April 30, 2007

	Arrow Fund <sup>*</sup>	Stocks <sup>**</sup>	Bond <sup>^</sup>
Best Month	5.0%	8.9%	2.7%
Worst Month	-1.8%	-11.0%	-3.4%
Drawdown	-4.4%	-25.8%	-3.6%
Volatility	4.5%	12.2%	3.7%

\* Arrow Multi-Strategy Fund (Class A)

\*\* Based solely on the MSCI Total Return Net World Index (USD)

^ Based solely on the Lehman Aggregate Bond Index (USD)

1. Past performance of the Fund is not indicative of future performance of the Fund or the Notes.

2. Inception to Date

# THE BANK OF NOVA SCOTIA ARROW MULTI-STRATEGY™ FUND DEPOSIT NOTES, SERIES 1

## ABOUT ARROW

*Arrow Hedge Partners Inc. is one of Canada's largest alternative investment providers, managing in excess of \$850 million for investors globally. It specializes in providing access to high quality hedge fund managers and multi-manager fund of funds to a wide range of clients including family offices, institutions, pension funds and high net worth individuals.*

*Arrow Hedge Partners Inc., is a founding member of AIMA (Alternative Investment Management Association) in Canada.*

*[www.arrowhedge.com](http://www.arrowhedge.com)*

## TERMS OF THE OFFERING

Issuer:	The Bank of Nova Scotia
Principal Protection:	Each investor will receive their principal if held until maturity
Issue Price:	\$100 per Note
Minimum Subscription:	Minimum subscription of \$5,000 (50 Notes)
Selling Period:	Approximately May 17 to June 25, 2007
Secondary Market:	Secondary market on a monthly basis, if available. Early trading charge of: Year 1: 5.95% Year 2: 3.50% Year 3: 1.25% and thereafter, nil.*
Term:	8 years (matures June 29, 2015)
RRSP Eligible	100% qualified for RRSPs, RRIFFs, DPSPs

For further information about The Bank of Nova Scotia Arrow Multi-Strategy™ Fund Deposit Notes, Series 1, please contact your financial advisor.

**The information above must be read in conjunction with the attached Information Statement.** This document is a summary only of certain aspects of the Notes and investors are urged to read the attached Information Statement in its entirety for complete information related to the Notes, including the risk factors. A hard copy of the Information Statement will be sent to all investors.

A prospective investor should decide to invest in the Notes only after carefully considering with his or her advisor whether the Notes are a suitable investment in light of the information set out in the Information Statement. None of the Bank including in its capacity as Calculation Agent, Scotia Capital Inc., including in its capacity as Selling Agent, nor Arrow Hedge Partners Inc. in its capacity as Fund Manager makes any recommendation as to whether the Notes are a suitable investment for any person.

The Notes have certain investment characteristics that differ from conventional fixed income investments in that they do not provide holders with any return or income stream prior to the Maturity Date, or a return at the Maturity Date that is calculated by reference to a fixed or floating rate of interest that is determinable prior to the Maturity Date. The return on the Notes (if any), unlike the return on many deposit liabilities of Canadian chartered banks, is uncertain in that the Notes could produce no return on the holder's original investment. Therefore, the Notes are not suitable investments for a holder if the holder needs or expects certainty of yield. The Notes are designed for holders with a long-term investment horizon who are prepared to hold the Notes to the Maturity Date and are prepared to assume risks with respect to a return tied to the performance of the Fund. Prospective purchasers should take into account additional risk factors associated with this Offering. **See "Risk Factors" in the attached Information Statement.**

If a holder sells Notes prior to the Maturity Date, the holder may have to do so at a discount from the Principal Amount even if the performance of the Fund has been positive and, as a result, the holder may suffer losses. In addition, an "Early Trading Charge" of up to 5.95% of the Principal Amount of a Note will be applied if the holder sells a Note in years 1 to 3 following the issue date.

The Notes are not redeemable by the holder. The Notes are generally not suitable for a holder who requires liquidity prior to the Maturity Date. A holder should consult his or her investment advisor concerning whether it would be more favourable to the holder in the circumstances at any time, to sell the Notes (assuming the availability of a secondary market) or to hold the Notes until the Maturity Date. A holder should also consult his or her tax advisor as to the income tax consequences arising from a sale prior the Maturity Date as compared to holding the Notes until the Maturity Date. The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "1933 Act"), or any State securities laws and, subject to certain exceptions, may not be offered for sale, sold or delivered, directly or indirectly in the United States, its territories or possessions to or for the account or benefit of US persons within the meaning of Regulation S under the 1933 Act. In addition, the Notes may not be offered or sold to residents of any jurisdiction or country of Europe.

The Notes are issued by The Bank of Nova Scotia. The price to be paid by each holder upon issuance of a Note has been determined by agreement between the Bank and Scotia Capital Inc. (the "Selling Agent"). The Selling Agent is a subsidiary of the Bank. As a result, the Bank is a related issuer of the Selling Agent under applicable Canadian securities legislation.

"Scotiabank", "Scotia Capital", and the flying "S" logo are registered trademarks of The Bank of Nova Scotia ("Bank"). "ARROW MULTI-STRATEGY" is a trademark of Arrow Hedge Partners Ltd.

\* Scotia Capital Inc. has undertaken to use reasonable efforts to effect the actions set out in the Information Statement under "Description of the Notes-Secondary Trading", but reserves the right not to do so at any time.

## INFORMATION STATEMENT DATED MAY 17, 2007

*This Information Statement has been prepared solely for the purpose of assisting prospective purchasers in making an investment decision with respect to the Notes. This Information Statement constitutes an offering of these Notes only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell the Notes. No securities commission or similar authority in Canada has in any way passed upon the merits of the Notes offered hereunder and any representation to the contrary is an offence. The Notes offered under this Information Statement have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "1933 Act"), or any State securities laws and, subject to certain exceptions, may not be offered for sale, sold or delivered, directly or indirectly in the United States, its territories or possessions to or for the account or benefit of US persons within the meaning of Regulation S under the 1933 Act. In addition, the Notes may not be offered or sold to residents of any jurisdiction or country of Europe.*



### THE BANK OF NOVA SCOTIA ARROW MULTI-STRATEGY™ FUND DEPOSIT NOTES, SERIES 1

#### **\$50,000,000 Maximum GUARANTEED PRINCIPAL REPAYMENT**

The Bank of Nova Scotia — Arrow Multi-Strategy™ Fund Deposit Notes, Series 1 (the "Notes") issued by The Bank of Nova Scotia (the "Bank") will mature on or about June 29, 2015 (the "Maturity Date"). The Notes have been developed to provide holders of Notes ("Investors") who hold the Notes to the Maturity Date with principal protected notes that provide exposure to the capital appreciation of the Class "A" units (the "Units") of the Arrow Multi-Strategy Fund (the "Fund").

The Fund is a fund of hedge funds. The investment objective of the Fund is to generate consistent absolute returns, while limiting the overall volatility of the Fund and minimizing the Fund's correlation to major equity and bond market indices. Arrow Hedge Partners Inc. ("Arrow Hedge") is the manager of the Fund (the "Fund Manager"). See "The Fund".

The return on the Notes is linked to a notional portfolio (the "Portfolio") consisting of book-keeping accounts holding notional Units and notional 0.50% coupon bonds ("Bonds") of the Bank. It is anticipated that 100% of the Net Proceeds will be initially allocated to Units on the closing of the Offering. Thereafter, the Portfolio will be rebalanced as described in this Information Statement.

**For the avoidance of doubt, the Portfolio is notional only and all actions taken with respect thereto including, without limitation, all holdings, purchases, sales and redemptions of Units and/or Bonds are notional actions only. All references contained in this Information Statement to any such actions or events are to be construed as notional actions and events only. Since the Portfolio is strictly notional and each of the Fund Account and the Bond Account (as each such term is defined below) are book-keeping entries only, at no time will the Portfolio actually hold or own Units or Bonds and Investors will not have any rights to acquire, or any direct or indirect ownership of or entitlement to, Units, Bonds or assets reflected in the Portfolio. Investors will not, by virtue of holding Notes, be entitled to the rights or benefits of a unitholder of the Fund. See "Description of the Notes" and "Risk Factors".**

At the Maturity Date, each Investor will receive an amount per Note equal to: (i) the amount deposited of \$100 (the "Principal Amount"); and (ii) the variable return, if any (the "Variable Return"), calculated as set forth in this Information Statement. The Variable Return, if any, will be based on the return on the Portfolio after the payment of certain fees and expenses. Investors will not receive Variable Return, if any, prior to maturity. See "Fees and Expenses Associated with the Notes" and "Risk Factors".

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**PRICE: \$100 PER NOTE**  
**Minimum Subscription: \$5,000 (50 Notes)**  
**FundSERV Code: SSP 111**

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**A prospective investor should decide to invest in the Notes only after carefully considering with his or her advisor whether the Notes are a suitable investment in light of the particular circumstances of the investor and the information set out in this Information Statement. Neither the Bank, Scotia Capital Inc., the Fund Manager nor any of their respective affiliates makes any recommendation as to whether the Notes are a suitable investment for any person.**

"Scotiabank", "Scotia Capital", and the flying "S" logo are registered trademarks of The Bank of Nova Scotia.

"Arrow Hedge Partners Inc.", "Arrow Hedge Partners", "Arrow Hedge" and "Arrow" are trademarks of Arrow Hedge Partners Inc.

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*The Bank has taken reasonable care to ensure that the facts stated in this Information Statement with respect to the Notes are true and accurate in all material respects. However, the Bank and the Selling Agent make no assurances, representations or warranties with respect to the accuracy, reliability or completeness of any information obtained from third parties reproduced herein.*

*Neither the Bank, the Selling Agent, the Fund Manager nor their respective affiliates makes any representation as to the future performance of any of the Units or the Bonds. Investors should make any decision to invest in the Notes based only on their own views on the likely future performance of the Portfolio, without reliance on the Bank, the Selling Agent, the Fund Manager or any of their respective affiliates, and with the knowledge that the views of the Bank, the Selling Agent, the Fund Manager and their respective affiliates and the views of other market professionals may be different than theirs.*

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

## SUITABILITY FOR INVESTMENT

The Notes have been designed to provide Investors with exposure to the capital appreciation, if any, of the Units. An investment in Notes is suitable for investors prepared to assume risks with respect to a return tied to the performance of the Units. The return on the Notes, if any, is uncertain in that an investor will not receive any payments prior to maturity and may not receive anything more at the Maturity Date than the Principal Amount. **The Principal Amount is guaranteed to be repaid only if the Notes are held to the Maturity Date.** A person should reach a decision to invest in the Notes after carefully considering, with his or her advisors, the suitability of this investment in light of his or her investment objectives and the information set out in this Information Statement. See “Risk Factors”.

## ELIGIBILITY FOR INVESTMENT

In the opinion of McCarthy Tétrault LLP, counsel to the Bank, the Notes offered hereby would, if issued on the date of this Information Statement, be qualified investments under the Act for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans or deferred profit sharing plans (other than a trust governed by a deferred profit sharing plan to which contributions are made by the Bank or by an employer with which the Bank does not deal at arm’s length within the meaning of the Act).

## SUMMARY

*The following is a summary only and is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Information Statement. Capitalized terms that are used but not defined in this summary are defined elsewhere in this Information Statement. See “Glossary” for defined terms.*

**Issue:** The Bank of Nova Scotia — Arrow Multi-Strategy™ Fund Deposit Notes, Series 1.

**Issuer:** The Bank of Nova Scotia.

**Selling Agent:** Scotia Capital Inc.

**Principal Amount:** The Notes will be sold in denominations of \$100 per Note (the “Principal Amount”).

<b>Subscription Price:</b>	<u>Price to an Investor<sup>(1)</sup></u>	<u>Selling Agent Fees</u>	<u>Proceeds to the Bank<sup>(2)</sup></u>
	\$100 per Note	\$4.00	\$96.00

(1) The price to be paid by each Investor upon issuance has been determined by negotiation between the Bank and the Selling Agent.

(2) The net proceeds (“Net Proceeds”) are before deduction of expenses of issue, which will be paid by the Bank out of its general funds.

**Currency:** Canadian dollars.

**Minimum Subscription:** Minimum subscription of \$5,000 (50 Notes).

**Issue Size:** A maximum of \$50,000,000 Principal Amount of Notes will be issued by the Bank. This maximum size may be changed at any time, in the sole discretion of the Bank.

**Issue Date:** The Notes will be issued on or about June 29, 2007 (the actual date of issuance being the “Issue Date”).

Subscription proceeds submitted by Investors in advance of the Issue Date will be held in an account by the Selling Agent and will bear interest at an annual rate equal to 2.00%. To the extent that the interest accrued on any Investor’s subscription proceeds from the date of deposit to the Issue Date equals or exceeds \$100 or integral multiples thereof, such Investor will receive Notes in an equivalent Principal Amount rounded down to the nearest integral multiple of \$100. Investors have no entitlement to, and will not receive, any cash payment of interest under any circumstances, except where an Investor rescinds or has its purchase order rejected, in entirety, in which case the Investor will receive cash equal to the interest earned rounded down to the nearest integral multiple of \$100. No fractional Notes will be issued.

**Maturity Date/Term:** The Notes will mature on June 29, 2015, resulting in a term to maturity of approximately 8 years. The Notes are not redeemable or retractable prior to maturity, but they may be resold in any available secondary market. See “Description of the Notes — Secondary Trading”.

**Offering:** This Offering has been developed to provide investors with the opportunity to purchase principal protected notes that provide exposure to the Units. The link between the Notes and the capital appreciation, if any, of the Units will be based on an initial notional investment of the Net Proceeds of the Offering (\$96.00 per Note) in the Portfolio. Periodically following the Issue Date, the Portfolio will be re-allocated among the Units and the Bonds in accordance with the Asset Allocation Calculation.

**Fund Manager:**

Arrow Hedge Partners Inc.

**Description of the Fund:**

The Fund is a fund of hedge funds. The objective of the Fund is to generate consistent absolute returns while limiting the overall volatility of the Fund and minimizing the Fund's correlation to major equity indices. To achieve its objective, the Fund will invest in Underlying Funds that employ a variety of strategies, including, but not limited to long and short equity, merger arbitrage, high yield securities, convertible bond arbitrage, global macro and equity market neutral. The Fund's investments will include, but not be limited to, funds managed by the Fund Manager. The Underlying Funds may invest in a wide range of equity and debt securities and other financial instruments that may be either listed on recognized stock exchanges or unlisted. The Underlying Funds may employ leverage and short selling to enhance returns and use a combination of cash, short positions, options, futures, swaps and other derivative instruments to increase, moderate or eliminate their exposure to market direction. The Fund may employ leverage and from time to time also hold cash and/or money market instruments. The Fund aims to reduce its volatility by diversification across fund managers and the hedge strategies employed. Allocation to Underlying Funds will be closely monitored and reviewed at least quarterly in an attempt to optimize the Fund's risk and return characteristics. The Fund Manager will also monitor and review the risk and return characteristics of the combined investments of the Underlying Funds. If, in the Fund Manager's opinion, these risk and return characteristics are not optimal the Fund will make an investment to attempt to optimize the Fund's risk and return characteristics. These investments may include, but are not limited to, cash, equity or debt securities, short selling, options, futures, swaps and other derivative instruments. The Fund Manager reserves the right to change, add additional, or adjust the allocation of, Underlying Funds, from time to time without notice to Investors. The Fund has no geographic, industry sector or market capitalization restrictions. Prior to selecting Underlying Funds, the Fund Manager conducts thorough and extensive research and due diligence. Numerous quantitative and qualitative factors are considered, including the background and experience of the Managers, their track record, investment process, risk management systems, the infrastructure and organization of the Managers' company, the size and growth of the assets under management, hedging techniques and the Managers' use of leverage.

**The Portfolio:**

The Portfolio will consist of two book-entry accounts, being the Fund Account and the Bond Account. The Fund Account will notionally hold Units of the Fund. On the Issue Date, it is anticipated that the Calculation Agent will initially allocate the entire Net Proceeds of \$96.00 per Note to the notional purchase of Units for the Fund Account at the then current net asset value per Unit. On each Month End Valuation Date thereafter, the Portfolio may be reallocated based on the Distance as at the immediately preceding Rebalancing Valuation Date, and Units may be notionally redeemed or purchased on a Month End Valuation Date upon the occurrence of certain events in accordance with the Asset Allocation Calculation and provided that the Calculation Agent has given the requisite notice to the Fund Manager. A Month End Valuation Date is the last trading day of each calendar month during the term of the Notes on which the Toronto Stock Exchange (the "TSX") is open for business or such other days as the Fund Manager may determine. A Rebalancing Valuation Date is the Valuation Date immediately preceding the 10<sup>th</sup> Business Day prior to a Month End Valuation Date. **For the avoidance of doubt, the Portfolio is notional only and all actions taken with respect thereto including, without**

**limitation, all holdings, purchases, sales and redemptions of Units and/or Bonds are notional actions only. All references contained in this Information Statement to any such actions or events are to be construed as notional actions and events only. Since the Portfolio is strictly notional and each of the Fund Account and the Bond Account are book-keeping entries only, at no time will the Portfolio actually hold or own Units or Bonds. Investors will not have any rights to acquire, or any direct or indirect ownership of or entitlement to, Units, Bonds or assets reflected in the Portfolio. Investors will not, by virtue of holding Notes, be entitled to the rights or benefits of a unitholder of the Fund.**

**Fund Account:**

The Fund Account will notionally hold Units of the Fund. The Fund Account may also notionally hold, from time to time, a nominal amount of cash. Units in the Fund Account may be affected by an Allocation Event, a Market Disruption Event, an Extraordinary Event or a Protection Event. See “Description of the Notes — Asset Allocation and Asset Allocation Calculation”.

All references to Units are to Class A units of the Fund.

**Bond Account:**

The Bond Account will notionally hold 0.50% coupon bonds (each a “Bond”) of the Bank that mature on the Maturity Date. Bonds will be purchased and sold at yields equal to the prevailing Canadian dollar inter-bank swap rate (using the bid swap rate for purchases and offer swap rate for sales) for a term equivalent to the remaining term of the Notes. Bonds will be purchased or sold in accordance with the Asset Allocation Calculation. No Bonds will be purchased on the Issue Date. See “Description of the Notes — Asset Allocation and Asset Allocation Calculation”.

**Reinvestment:**

**To date, the Fund has not paid any Distributions.** Should the Fund pay any Distribution during the term of the Notes, any such Distribution will be reinvested in Units for the Fund Account at the then prevailing net asset value per Unit on the Valuation Date next occurring following the date of payment of any such Distribution.

**Asset Allocation Calculation:**

The Asset Allocation Calculation will dictate the allocation of the Portfolio, from time to time, between Units and Bonds. The Calculation Agent will be responsible for monitoring the Distance (as defined below) on each Rebalancing Valuation Date. Rebalancing of the Portfolio pursuant to the Asset Allocation Calculation may occur on each Month End Valuation Date, based on the Distance on the immediately preceding Rebalancing Valuation Date, provided that the requisite notice is given by the Calculation Agent to the Fund Manager. The Asset Allocation Calculation is based on the following concepts:

- “Distance” = 
$$\frac{\text{NAV} - \text{Floor}}{100}$$
- “NAV” means, at any time the total of: (i) the Fund Account Value and the value of the Bond Account; minus (ii) the Program Fees (as defined herein) accrued and unpaid at that time; divided by (iii) the number of Notes outstanding.
- “Floor” means, at any time, the estimated offer price at that time for a 0.50% coupon Bond with a \$100 face amount and a maturity date of June 29, 2015, determined by the Calculation Agent.

- “Fund Account Value” or “FAV” means, on each Valuation Date, the aggregate of: (i) the amount that could be realized at that time by notionally selling all Units in the Fund Account at then prevailing net asset value per Unit (which net asset value is determined net of a 2.50% management fee paid by the Fund to the Fund Manager and all accrued performance fees); and (ii) any cash in the Fund Account at that time, expressed as an amount per Note.

Subject to the occurrence of a Market Disruption Event, on the Issue Date, Units of the Fund will be notionally purchased using the Net Proceeds of \$96.00 per Note at the then prevailing net asset value per Unit. Subject to the occurrence of events described under “Description of the Notes — Special Circumstances”, the Portfolio may be rebalanced on each Month End Valuation Date thereafter, based on the Distance on the immediately preceding Rebalancing Valuation Date, provided that the requisite notice is given by the Calculation Agent to the Fund Manager.

Upon the occurrence of certain events that may be triggered by changes in the Distance on a Rebalancing Valuation Date which, in turn, is triggered by changes in the NAV and/or the Floor (each, an “Allocation Event”), the Portfolio will be notionally rebalanced on the next following Month End Valuation Date by reallocating the assets of the Portfolio between notional Units and Bonds utilizing the net asset value per Unit in effect on such Month End Valuation Date, provided that the requisite notice is given by the Calculation Agent to the Fund Manager. The Calculation Agent will be required to monitor the Distance on each Rebalancing Valuation Date. Allocation Events that would otherwise have occurred on a Month End Valuation Date based on the Distance as of the immediately preceding Rebalancing Valuation Date may be delayed in the circumstances described under “Description of the Notes — Special Circumstances — Market Disruption Event”. The following table describes the relationship between the Distance and the allocation of the Portfolio between the Fund Account and the Bond Account:

<u>Distance Threshold</u>	<u>% of Portfolio Allocated to Fund Account</u>	<u>% of Portfolio Allocated to Bond Account</u>
Equal to or greater than 16.5% . .	100 %	0 %
13.5% to 16.49% . . . . .	80 %	20 %
10.50% to 13.49% . . . . .	60 %	40 %
7.50% to 10.49% . . . . .	40 %	60 %
4.51% to 7.49% . . . . .	20 %	80 %
Equal to or less than 4.50% . . . . .	0 %	100 %

As of the date of this Information Statement, the Distance would be 23.57%, being 7.07% above the minimum Distance Threshold required to maintain 100% exposure to the Fund Account and 19.07% above the Distance Threshold that would trigger a Protection Event, assuming interest rates remain constant.

If the Distance decreases with the result that the Distance is at a lower Distance Threshold on a Rebalancing Valuation Date compared to the Distance as at the immediately preceding Rebalancing Valuation Date (a “Bond Allocation Event”), the Portfolio will be rebalanced on the next following Month End Valuation Date. Units in the Fund Account will be redeemed at the net asset value per Unit in effect on such Month End Valuation Date and the proceeds thereof applied to purchase Bonds for the Bond Account so that the allocation

of the Portfolio to the Fund Account will be reduced and the allocation of the Portfolio to the Bond Account will be increased, as necessary, to properly reflect the percentages in the above table applicable to such new Distance Threshold.

If the Distance increases with the result that the Distance is at a higher Distance Threshold on a Rebalancing Valuation Date compared to the Distance as at the immediately preceding Rebalancing Valuation Date (a “Fund Allocation Event”), the Portfolio will be rebalanced on the next following Month End Valuation Date. Bonds in the Bond Account will be sold and the proceeds thereof applied to purchase Units for the Fund Account at the net asset value in effect on such Month End Valuation Date so that the allocation of the Portfolio to the Fund Account will be increased and the allocation of the Portfolio to the Bond Account will be reduced, as necessary, to properly reflect the percentages in the above table applicable to such new Distance Threshold.

If the Distance falls to 4.50% or less on any Rebalancing Valuation Date, a Protection Event occurs. Upon the occurrence of a Protection Event, all Units in the Fund Account will be redeemed at then prevailing net asset value per Unit in effect on the next following Month End Valuation Date and the proceeds thereof applied to pay any accrued and unpaid Program Fees, and second, to purchase Bonds. Following the occurrence of a Protection Event, no further Units will be purchased for the Fund Account (regardless of the subsequent performance of the Units) with the result that, thereafter until the Maturity Date, the Portfolio will consist only of Bonds. If a Protection Event occurs, the possibility of the Investor receiving more than the Principal Amount of \$100 per Note on the Maturity Date is significantly reduced. In this case, Investors may only have the Principal Amount of their Notes returned to them on the Maturity Date.

See “Description of the Notes — Asset Allocation and the Asset Allocation Calculation”.

**Amounts Payable at the Maturity Date:**

The amount payable to an Investor in respect of a Note on the Maturity Date will be equal to the sum of: (i) the Principal Amount; plus (ii) the Variable Return, if any. See “Description of the Notes — Maturity and Principal Repayment”.

**Variable Return Calculation:**

The Variable Return, if any, on a Note is linked to the performance of the Portfolio. The Variable Return, if any, per Note will be payable only on the Maturity Date, subject to deferral in the circumstances described herein. The Variable Return will be the amount, if any, by which the NAV<sub>FINAL</sub> (as defined herein) exceeds the Principal Amount. The Variable Return is calculated as follows:

$$\text{Variable Return} = \text{Principal Amount} \times \text{Portfolio Performance}$$

Where:

$$\text{Portfolio Performance} = \frac{\text{NAV}_{\text{FINAL}} - 100}{100}$$

- “NAV<sub>FINAL</sub>” means, at any time (expressed pro rata per Note), the notional proceeds from the liquidation of the Fund Account plus the maturity value of the Bond Account as calculated by the Calculation Agent, minus repayment of any accrued and unpaid Program Fees.

Portfolio Performance will be expressed as a percentage rounded to two decimal places. No Variable Return will be paid unless the NAV<sub>FINAL</sub> exceeds \$100. **For any Variable Return to be paid to Investors, the performance of the Portfolio must exceed the Program Fees and the performance fees. See “Risk Factors”.**

**Secondary Market:**

**There is currently no market through which the Notes may be sold.** There can be no assurance that a secondary market for the Notes will develop or, if such market does develop, that it will be sustained or liquid. The Notes will not be listed on any stock exchange. Commencing July 31, 2007, the Selling Agent intends to use reasonable efforts to initiate and maintain a monthly secondary market for the Notes on the last trading day of each month on which the TSX is open for business during the term of the Notes, but reserves the right not to do so at any time in the future, in its sole discretion, without providing prior notice to Investors. These efforts will consist of posting a bid price through FundSERV for the Notes (the “Bid Price”). Investors who wish to sell Notes to the Selling Agent in any month must notify the Selling Agent on or prior to the 12<sup>th</sup> Business Day prior to the Month End Valuation Date on which the Investor wishes to sell. Any such Notes will be purchased by the Selling Agent on the last trading day in such month on which the TSX is open for business at the then current Bid Price less any applicable Early Trading Charge. **Accordingly, to the extent that a secondary market is available, Investors will be able to sell Notes to the Selling Agent only one day per month during the term of the Notes and the Bid Price at which Notes will be purchased may be different than the Bid Price in effect at the date the sale notice is given by the Investor.** The Selling Agent may, for any reason, elect not to purchase Notes from any particular Investor and may, in its sole discretion, limit the number of Notes to be purchased from any particular Investor at any time. **If an Investor sells a Note to the Selling Agent within the first three years from the Issue Date, the Investor will receive sale proceeds equal to the Bid Price for the Note as determined by the Selling Agent on the date the Notes are purchased minus any applicable Early Trading Charge. A sale of Notes originally purchased through FundSERV will be subject to certain additional procedures and limitations established by FundSERV. See “Description of the Notes — Secondary Trading of Notes”, “FundSERV” and “Risk Factors”.**

While the Selling Agent will use reasonable efforts, the Selling Agent is under no obligation to facilitate or arrange for such a secondary market, and such secondary market, when commenced, may be suspended at any time at the sole discretion of the Selling Agent, without notice. If there is no secondary market, an Investor will not be able to sell its Notes. The Notes are intended to be instruments held to the Maturity Date. **If an Investor sells Notes prior to the Maturity Date, the Investor may have to do so at a discount from the Principal Amount even if the performance of the Portfolio has been positive and, as a result, the Investor may suffer losses.** See “Description of the Notes — Secondary Trading” and “Certain Canadian Federal Income Tax Considerations”.

**Early Trading Charge:**

If an Investor sells a Note in any month within the first three years from the closing of this Offering, the proceeds from the sale of the Note will be reduced by the Early Trading Charge. The Early Trading Charge is 5.95% of the Principal Amount of any Note sold in the first year following the Issue Date, 3.50% of the Principal Amount of any Note sold in the second year following the Issue Date and 1.25% of the Principal Amount of any Note sold in the third year following the Issue Date. After the end of the third year following the Issue

Date, the Early Trading Charge will cease to apply. See “Description of the Notes — Early Trading Charge”.

**Rank:** The Notes will rank equally with all other deposit liabilities of the Bank. **The Notes will not be deposits insured under the *Canada Deposit Insurance Corporation Act* or under any other deposit insurance regime designed to ensure the payment of all or a portion of a deposit upon the insolvency of the deposit taking financial institution.** See “Description of the Notes — Rank; No Deposit Insurance”.

**Credit Rating:** **The Notes have not been rated.** As of the date of this Information Statement, the Bank’s deposit liabilities with a term of more than one year were rated AA by Dominion Bond Rating Service Limited, AA – by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. and Aa1 by Moody’s Investors Service, Inc. There can be no assurance that if the Notes were specifically rated by these rating agencies that they would have the same rating as the Bank’s other deposit liabilities. **A rating is not a recommendation to buy, sell or hold investments and may be subject to revision or withdrawal at any time by the relevant rating agency.** See “Description of the Notes — Credit Rating”.

**Use of Proceeds:** The Net Proceeds will not be held by the Bank in trust for the Investors of the Notes in any segregated or other account. Rather, the Bank will use the Net Proceeds of the Offering for its general banking purposes. See “Use of Proceeds”.

**Income Tax Considerations:** This income tax summary is subject to the limitations and qualifications set out under the heading “Certain Canadian Federal Income Tax Considerations”. Except in the case of an Extraordinary Event or a Protection Event, there should be no deemed accrual of interest on the Notes under the “prescribed debt obligation” rules of the Act and the Regulations until the taxation year of an Initial Investor that includes the Maturity Date. Where the Variable Return is determined because of an Extraordinary Event or a Protection Event, the Variable Return will generally be required to be accrued by the Initial Investor in accordance with the “prescribed debt obligation” rules of the Act and the Regulations. The full amount of the Variable Return will generally be included in an Initial Investor’s income in the taxation year of the Initial Investor that includes the Maturity Date. Although not free from doubt, an Initial Investor who disposes of, or is deemed to dispose of, a Note (other than by virtue of repayment of the Note on the Maturity Date) should realize a capital gain (or capital loss) to the extent that the proceeds of disposition of the Note, less any costs of disposition, exceed (or are exceeded by) the Initial Investor’s adjusted cost base of the Note. **Initial Investors who dispose of Notes prior to the Maturity Date should consult their tax advisors with respect to their particular circumstances.**

See “Certain Canadian Federal Income Tax Considerations”.

**Fees and Expenses:** The following fees and expenses will reduce the Variable Return, if any, payable on the Notes:

**Program Fee**

The Notes will be subject to an annual program fee (the “Program Fee”). The Program Fee will vary depending upon the allocation in the Portfolio between the notional Units and the Bonds. The total Program Fee will be 3.75% for the portion of the Portfolio allocated to the Fund Account (including any Units

notionally acquired on reinvestment), consisting of 1.70% which is paid to the Fund Manager, 0.50% paid to the selling agents (on the terms described below) and 1.55% paid to Scotia Capital for structuring the Notes and providing principal protection. The Program Fee is 0.50% for the portion of the Portfolio allocated to the Bond Account. The Program Fee will be accrued daily and paid quarterly in arrears to Scotia Capital, as Calculation Agent of the Notes. The 0.50% Program Fee on the portion of the Portfolio allocated to the Bonds is produced by the coupon on the Bonds. The 3.75% Program Fee on the portion of the Portfolio allocated to the Fund Account, which is 1.25% above the current management fee charged by the Fund Manager to the Fund, is generated by redeeming Units notionally held in the Fund Account.

The Bank will pay selling agents who sell Notes an annual fee, paid quarterly, of 0.50% of the average daily value of the Fund Account in each year of the term of the Notes. This fee will be paid out of the Program Fee. **Program Fees will be deducted from the Fund Account periodically during the term of the Notes and prior to determining the amount of Variable Return, if any, payable at maturity.**

The Bank will also pay a selling fee to qualified selling group members of \$4.00 per Note sold, which will reduce the amount invested initially in the Portfolio.

#### **Performance Fees**

The Fund Manager is entitled to receive from the Fund an annual performance fee equal to 20% of the increase during the year in the value of each investment in an Underlying Fund. To the extent that the investment declines in any year, the negative amount will be carried forward and deducted from the value of the Underlying Fund used to calculate the performance fee in respect of such Underlying Fund in future years. **Performance fees may be reduced to ensure that any investments made by the Fund in Underlying Funds managed by Arrow Hedge will not result in duplication of performance fees paid to Arrow Hedge. Performance fees are calculated and paid annually to the Fund Manager. In the case of each Underlying Investment managed by a third party, the Fund may reduce the performance fee paid by it in respect of such investment by the amount of the performance fee payable by such Underlying Investment. The Fund accrues performance fees owing to the Fund Manager during any calendar year, based on the performance of each Underlying Fund since the beginning of the calendar year to any Valuation Date in that calendar year. The net asset value of a Unit on any Valuation Date is net of accrued performance fees as at such Valuation Date.**

The Fund is responsible for the payment of all fees and expenses relating to its on-going operations, including registrar and transfer agent fees and expenses, audit, accounting, administration, record keeping and legal fees and expenses, custody and safekeeping charges, all costs and expenses associated with the qualification and offering for sale of units of the Fund, providing financial reports and other communications reports to unitholders and regulators, and convening and conducting meetings of unitholders, all taxes, interest and all brokerage and other fees relating to the purchase and sale of the assets of the Fund.

**Management fees, performance fees and operating expenses, each of which are paid at the Fund level, will, generally, reduce the net asset value of the Units and, as a result, the amount of the Variable Return, if any, payable in respect of the Notes.**

**Calculation Agent:**

Scotia Capital will act as the Calculation Agent, provided that Scotia Capital may appoint a successor calculation agent and may delegate its functions to a third party. The Calculation Agent will make all necessary calculations and determinations required in respect of the Notes. In certain circumstances involving a Market Disruption Event, exact and precise calculations may not be possible. The Calculation Agent's calculations and determinations will be made in good faith and will, absent manifest error, be final and binding on Investors.

**Book-Entry Only  
Registration:**

All of the Notes will be evidenced by a single global Note held by CDS, or its nominee on its behalf, as registered Investor of the Notes. Registration of interests in and transfers of the Notes will be made only through participants in its book-entry system ("Participants"). Subject to certain limited exceptions, no Investor will be entitled to any certificate or other instrument from the Bank or CDS evidencing the ownership thereof and no Investor will be shown on the records maintained by the depository except through an agent who is a Participant of the depository. See "Description of the Notes — Form of the Notes".

**Risk Factors:**

Before reaching a decision to purchase any Notes, prospective investors should carefully consider a variety of risk factors associated with the ownership of the Notes. **An Investor will not be able to redeem Notes prior to the Maturity Date.** The Notes have certain characteristics that differ from conventional fixed income investments in that they do not provide any return or income stream prior to the Maturity Date, or a return at the Maturity Date that is calculated by reference to a fixed or floating rate of interest that can be determined prior to the Maturity Date. The return on the Notes (if any), unlike the return on many deposit liabilities of Canadian chartered banks, is uncertain. Therefore, the Notes are not suitable investments for Investors that need or expect to receive payments during the term of the Notes or a return on investment at the Maturity Date. The Notes are designed for Investors with a long-term investment horizon who are prepared to hold the Notes to the Maturity Date and are prepared to assume risks with respect to a return tied to the performance of the Units.

Investors will have limited liquidity in that the Selling Agent will use reasonable efforts to maintain a secondary market for the Notes only on one day in each month during the term of the Notes.

There is no assurance that the Units will appreciate in value over the term of the Notes. Therefore, there is no assurance that Investors will receive any amount at the Maturity Date other than the repayment of the Principal Amount. The Notes do not represent a direct or indirect ownership interest in any notional Units or Bonds. All fees and expenses in respect of the Notes will be deducted from the value of the Portfolio and will reduce the Variable Return, if any. The capital appreciation, if any, of the notional Units may not be sufficient to generate any Variable Return on the Notes.

A prospective investor should decide to invest in the Notes only after carefully considering with his or her advisor whether the Notes are a suitable investment in light of his or her own circumstances and the information set out in this Information Statement. None of the Bank, Scotia Capital Inc. or their respective affiliates makes any recommendation as to whether the Notes are a suitable investment for any person. See "Risk Factors".

## DESCRIPTION OF THE NOTES

### Issue Size

The Bank of Nova Scotia — Arrow Multi-Strategy™ Fund Deposit Notes, Series 1 will be issued by the Bank on the Issue Date. A maximum of Cdn \$50,000,000 Principal Amount of Notes will be issued by the Bank. This maximum size may be changed at any time without notice in the sole discretion of the Bank.

### Principal Amount and Minimum Subscription

Each Note will be issued in a Principal Amount of Cdn \$100. The price to be paid by each Investor upon issuance has been determined by agreement between the Bank and the Selling Agent. The minimum subscription per Investor will be fifty (50) Notes (i.e. \$5,000).

### Maturity and Principal Repayment

Each Note matures on the Maturity Date, on which date the Investor will receive a minimum of the Principal Amount of \$100 per Note. If the Maturity Date is not a Business Day for any reason, then the Maturity Date will be deemed to occur on the next following Business Day and no interest or other compensation will be paid to an Investor in respect of such postponement.

### Issue Date

The Notes will be issued on or about June 29, 2007 (the actual date of issuance being the “Issue Date”). Subscription proceeds submitted by Investors in advance of the Issue Date will be held in an account by the Selling Agent and will bear interest at an annual rate equal to 2.00%. To the extent that the interest accrued on any Investor’s subscription proceeds from the date of deposit to the Issue Date equals or exceeds \$100 or integral multiples thereof, such Investor will receive Notes in an equivalent Principal Amount rounded down to the nearest integral multiple of \$100 of such interest. Investors have no entitlement to, and will not receive, any cash payment of interest under any circumstances, except where an Investor rescinds or has its purchase order rejected, in entirety, in which case the Investor will receive cash equal to the interest earned rounded down to the nearest integral multiple of \$100. No fractional Notes will be issued.

### The Portfolio

#### *General*

The Portfolio consists of two book-entry accounts referred to as the Fund Account and the Bond Account. The Portfolio is a notional portfolio of assets allocated in accordance with the Asset Allocation Calculation no more frequently than monthly, if at all, over the term of the Notes between the Fund Account and the Bond Account. Since the Portfolio is notional only, Investors will have no ownership or other interest in the Bonds, Units or other assets comprising the Portfolio, other than the right to be paid the Principal Amount and the Variable Return, if any, on the Notes based on the performance of the Portfolio. **For the avoidance of doubt, all holdings in the Portfolio and all actions including, without limitation, all holdings, purchases, sales, and redemptions of Units and/or Bonds taken in connection with the Portfolio are notional holdings and actions only. All references contained in this Information Statement to any such actions or events are to be construed as notional actions and events only. Since the Portfolio is strictly notional and each of the Fund Account and the Bond Account are book-keeping entries only, at no time will the Portfolio actually hold or own Units or Bonds. Investors will not, by virtue of holding Notes, be entitled to the rights or benefits of a unitholder of the Fund.**

#### *The Fund Account*

The Fund Account will consist mainly of notional Units of the Fund. The Fund Account may also contain, from time to time, a nominal amount of cash. The cash in the Fund Account will earn interest at the overnight Bank of Canada rate. Units in the Fund Account may be affected by the occurrence of an Allocation Event, a Market Disruption Event, an Extraordinary Event or a Protection Event. **To date, the Fund has not paid any Distributions.** If a Distribution is made by the Fund on Units in the Fund Account during the term of the Notes as of the relevant record date, any such Distribution will be notionally reinvested in the Fund Account at the net

asset value per Unit prevailing on the Valuation Date immediately following the payment date of any such Distribution and will not be distributed to Investors during the term of the Notes.

### ***The Bond Account***

The Bond Account will consist of notional 0.50% coupon bonds of the Bank, which will be purchased and sold at yields equal to the prevailing Canadian dollar inter-bank swap rates as reasonably determined by the Calculation Agent, using the bid price for purchases and offer price for sales for a term equivalent to the remaining term of the Notes. The 0.50% coupon is to support the Program Fees associated with the Bond Account. On the Issue Date, it is anticipated that all assets comprising the Portfolio will be allocated to the Fund Account with no assets used to make a purchase in the Bond Account.

The notional assets comprising the Portfolio will be rebalanced no more frequently than monthly between the Fund Account and the Bond Account on each Month End Valuation Date following the Issue Date according to the Asset Allocation Calculation, and cash accumulated in the Fund Account may be used for purchases of Units or Bonds. See “Description of the Notes-Asset Allocation and the Asset Allocation Calculation.”

### **Asset Allocation and the Asset Allocation Calculation**

#### ***General***

Subject to the occurrence of a Market Disruption Event or an Extraordinary Event, the Calculation Agent will allocate assets of the Portfolio between the Fund Account and the Bond Account according to the Asset Allocation Calculation no more frequently than monthly, if at all. The Asset Allocation Calculation has been designed to protect the Principal Amount of the Notes. For example, if a Protection Event occurs on a Rebalancing Valuation Date, all Units in the Fund Account will be redeemed on the next following Month End Valuation Date utilizing the net asset value per Unit in effect on such Month End Valuation Date, provided that the requisite notice is given by the Calculation Agent to the Fund Manager, and the proceeds will be used to purchase Bonds such that the value of the Bond Account at the Maturity Date is at least equal to the Principal Amount per Note. The Asset Allocation Calculation has also been designed to allocate assets between the Bond Account and Fund Account on Month End Valuation Dates depending on the prevailing level of the Distance on the immediately preceding Rebalancing Valuation Dates during the term of the Notes. The occurrence of an Allocation Event, based on the Distance on a Rebalancing Valuation Date, triggers the application of the Asset Allocation Calculation and a re-balancing of the Portfolio between the Fund Account and the Bond Account on the next following Month End Valuation Date utilizing the net asset value per Unit in effect on such Month End Valuation Date.

The Asset Allocation Calculation is based on the following concepts:

$$\text{“Distance”} = \frac{\text{NAV} - \text{Floor}}{100}$$

- “NAV” means, at any time the total of: (i) the Fund Account Value and the value of the Bond Account; minus (ii) the Program Fees (as defined herein) accrued and unpaid at that time; divided by (iii) the number of Notes outstanding.
- “Floor” means, at any time, the estimated offer price at that time for a 0.50% coupon Bond with a \$100 face amount and a maturity date of June 29, 2015, determined by the Calculation Agent.
- “Fund Account Value” or “FAV” means, on each Rebalancing Valuation Date, the aggregate of: (i) the amount that could be realized at that time by notionally selling all Units in the Fund Account at then prevailing net asset value per Unit (which net asset value is determined net of a 2.50% management fee paid by the Fund to the Fund Manager and all accrued performance fees); and (ii) any cash in the Fund Account at that time, expressed as an amount per Note.

The following table describes the relationship between the Distance and the allocation of the Portfolio between the Fund Account and the Bond Account:

<u>Distance Threshold</u>	<u>% of Portfolio Allocated to Fund Account</u>	<u>% of Portfolio Allocated to Bond Account</u>
Equal to or greater than 16.5% . . . . .	100%	0%
13.5% to 16.49% . . . . .	80%	20%
10.50% to 13.49% . . . . .	60%	40%
7.50% to 10.49% . . . . .	40%	60%
4.51% to 7.49% . . . . .	20%	80%
Equal to or less than 4.50% . . . . .	0%	100%

As of the date of this Information Statement, the Distance would be 23.57%, being 7.07% above the minimum Distance Threshold required to maintain 100% exposure to the Fund Account and 19.07% above the Distance Threshold that would trigger a Protection Event, assuming interest rates remain constant.

The Calculation Agent will be required to monitor the Distance on each Rebalancing Valuation Date and, subject to any adjustments to calculations as a result of the occurrence of a Market Disruption Event, a Protection Event or an Extraordinary Event, will administer the allocation of the Portfolio in accordance with the Asset Allocation Calculation no more frequently than monthly, if at all, through a purchase or redemption of Units or a purchase or sale of Bonds, if required, on any Month End Valuation Date, provided that the requisite notice is given to the Fund Manager.

It is anticipated that the full amount of the Net Proceeds from the issuance of the Notes of \$96.00 per Note, which is the Principal Amount less the Selling Agent’s fees, will be notionally allocated to the notional purchase of Units for the Fund Account on the Issue Date at the then prevailing net asset value per Unit determined by the Calculation Agent. It is anticipated that no Bonds will be purchased initially. A nominal amount of the Net Proceeds may be held in cash in the Fund Account initially.

***Bond Allocation Events***

A Bond Allocation Event occurs if the Distance decreases with the result that the Distance is at a lower Distance Threshold on a Rebalancing Valuation Date compared to the Distance at the immediately preceding Rebalancing Valuation Date. This may occur for a number of reasons including, without limitation, a decrease in the net asset value per Unit or an increase of the price of the Bonds beyond certain thresholds. Once a Bond Allocation Event occurs, the Calculation Agent will, provided that the requisite notice has been given to the Fund Manager, redeem Units at the net asset value per Unit in effect on the next following Month End Valuation Date and notionally apply the proceeds to purchase Bonds so that the allocation of the Portfolio to the Fund Account will be reduced and the allocation of the Portfolio to the Bond Account will be increased, as necessary, to properly reflect the percentages to such new Distance Threshold in the table under “Asset Allocation and the Asset Allocation Calculation — General”.

***Fund Allocation Events***

If the Distance increases with the result that the Distance is at a higher Distance Threshold on a Rebalancing Valuation Date compared to the Distance at the immediately preceding Rebalancing Valuation Date, a Fund Allocation Event occurs. This may occur for a number of reasons including, without limitation, an increase in the net asset value of the Units or a decrease in the price of the Bonds beyond certain thresholds. Once a Fund Allocation Event occurs, the Calculation Agent will, provided that the requisite notice has been given to the Fund Manager, sell the requisite number of Bonds from the Bond Account (if there are any such notional Bonds) and apply the proceeds of sale of the Bonds to purchase additional Units at the net asset value per Unit in effect on the next following Month End Valuation Date so that the allocation of the Portfolio to the Fund Account will be increased and the allocation of the Portfolio to the Bond Account will be decreased, as necessary, to properly reflect the percentages in the above table applicable to such new Distance Threshold in the table under “Asset Allocation and the Asset Allocation Calculation — General”.

### *Protection Events*

If the Distance Threshold reaches or falls below 4.50% on a Rebalancing Valuation Date, a Protection Event occurs and all Units in the Fund Account will, provided that the requisite notice has been given to the Fund Manager, be redeemed at the net asset value per Unit in effect on the next following Month End Valuation Date and the notional proceeds applied first to repay accrued and unpaid Program Fees, and second to the notional purchase of Bonds such that, on the Maturity Date, the value of the Bonds therein is expected to equal at least \$100 per Note, with the Bank assuming the risk for any shortfall. Investors are, in all events, entitled to receive the Principal Amount in respect of each Note held at the Maturity Date. After a Protection Event occurs, all of the assets comprising the Portfolio will remain in the Bond Account until the Maturity Date regardless of the subsequent performance of the Units. In this case, the Variable Return per Note payable on the Maturity Date, if any, will be the amount by which the aggregate par value of the Bonds (pro-rated per Note) exceeds \$100. If a Protection Event occurs, the possibility of receiving more than the Principal Amount of \$100 per Note on the Maturity Date is significantly reduced. In this case, Investors may have only the Principal Amount of their Notes returned to them on the Maturity Date.

### *Illustrative Examples*

#### *General*

The illustrative examples set out below demonstrate how the Asset Allocation Calculation is performed on the Notes under both positive and negative performance scenarios. **These examples are for illustrative purposes only and are not to be construed as a forecast or estimate of the anticipated performance of the Notes or the Units or the Fund Account. For simplicity in these examples, it is assumed that interest rates remain constant throughout the term of the Notes.** The hypothetical fluctuations in the value of the Units held in the Fund Account are used for illustration purposes only. Accordingly, the hypothetical performances of the Units are not estimates or forecasts of future values of the Units for the periods set out below. The following examples assume the Investor has purchased a single Note.

Investors should note that, although Variable Return is linked to the performance of the Portfolio, the amount, if any, of the Variable Return will depend upon the timing and extent of the increase and decrease in the net asset value of the Units over the term to the Maturity Date. Specifically:

- the performance of the Portfolio is dependant upon the Asset Allocation Calculation which is made only monthly and which may be delayed due to the occurrence of a Market Disruption Event;
- the Asset Allocation Calculation provides for the occurrence of a Fund Allocation Event if the Distance is at a higher Distance Threshold, and a Bond Allocation Event if the Distance is at a lower Distance Threshold, in each case, on a Rebalancing Valuation Date compared to the Distance at the immediately preceding Rebalancing Valuation Date, with rebalancing to occur on the next following Month End Valuation Date;
- Variable Return, if any, will only be payable if the  $NAV_{FINAL}$  exceeds the Principal Amount on the Maturity Date;
- there is no theoretical maximum Variable Return payable on the Notes and the Asset Allocation Calculation creates the opportunity for enhanced returns on the Notes, except that the federal laws of Canada preclude the charging of interest or other amounts for the advancing of credit at effective rates in excess of 60% per annum which may result in a delay or deferral of the payment of Variable Return, if any, beyond the Maturity Date;
- upon the occurrence of a Fund Allocation Event based on the Distance on a Rebalancing Valuation Date, the Portfolio will, provided that the requisite notice has been given by the Fund Manager to the Calculation Agent, be rebalanced on the next following Month End Valuation Date by the purchase of additional Units at the net asset value per Unit in effect on such Month End Valuation Date using proceeds from the sale of any Bonds in the Bond Account;
- upon the occurrence of a Bond Allocation Event based on the Distance on a Rebalancing Valuation Date, the Portfolio will, provided that the requisite notice has been given by the Fund Manager to the

Calculation Agent, be rebalanced on the next following Month End Valuation Date by a purchase of Bonds with proceeds from the redemption of Units at the net asset value per Unit in effect on such Month End Valuation Date;

- a Protection Event will occur if the Distance falls to 4.50% or less on any Rebalancing Valuation Date, in which case the Portfolio will, provided that the requisite notice has been given by the Calculation Agent to the Fund Manager, be fully invested in Bonds as of the next following Month End Valuation Date until the Maturity Date and the Investor will not participate in any subsequent performance (positive or negative) of the Units, with the result that it is possible that no Variable Return may be paid on the Notes;
- it is very unlikely that investing in the Notes will offer the same return as a direct investment in the Units; and
- the Principal Amount of \$100 per Note will be payable by the Bank on the Maturity Date regardless of the performance of the Units.

*Negative Performance — Bond Allocation Event*

In the example below, NAV of the Notes decreases from \$96 to \$89.21 and the cost of the Floor remains constant, resulting in the Distance decreasing to 16.49%. This produces a Bond Allocation Event, where \$17.84 of Fund Units are redeemed and used to notionally purchase 0.50% coupon Bonds. Variable Return, if any, payable on the Maturity Date would be the amount by which the pro rata value of the Portfolio exceeds the Principal Amount of the Notes.

	<b>Bond Allocation Event</b>		
	<u>Assumptions</u>	<u>At Bond Allocation Event</u>	<u>After Bond Allocation Event</u>
NAV — (Note NAV per \$100.00) . . .	\$ 96.00	\$89.21	\$89.21
Floor — (Cost of Notional Bond) . . .	\$ 72.72	\$72.72	\$72.72
Distance — (NAV — Floor/100) . . . .	23.28%	16.49%	16.49%
FAV — (Fund Account Value) . . . . .	\$ 96.00	\$89.21	\$71.37
Bond Account Value . . . . .	\$ 0.00	\$0.00	\$17.84
% Change in Note NAV From			
Issue . . . . .	0.00%	- 7.07%	- 7.07%
% Exposure to Fund Account <sup>(1)</sup> . . . .	100%	Redeem Units & reduce to 80%	80%

*Subsequent Positive Performance — Fund Allocation Event*

In the example below, the NAV of the Notes increases from \$89.21 to \$90.79 and the cost of the Floor remains constant, resulting in the Distance increasing to 18.07%, well over the Distance Threshold of 16.50% required for 100% portfolio allocation to the Fund Account. This produces a Fund Allocation Event, where \$17.84 worth of 0.50% coupon Bonds are notionally sold and the proceeds used to purchase additional Fund Units returning the exposure to the Fund Account to 100%.

	<b>Fund Allocation Event</b>		
	<u>Assumptions</u>	<u>At Fund Allocation Event</u>	<u>After Fund Allocation Event</u>
NAV — (Note NAV per \$100.00) . . .	\$ 89.21	\$90.79	\$90.79
Floor — (Cost of Notional Bond) . . .	\$ 72.72	\$72.72	\$72.72
Distance — (NAV — Floor/100) . . . .	16.49%	18.07%	18.07%
FAV — (Fund Account Value) . . . . .	\$ 71.37	\$71.37	\$90.79
Bond Account Value . . . . .	\$ 17.84	\$17.84	\$0.00
% Change in Note NAV From Issue . .	- 7.07%	- 5.43%	- 5.43%
% Exposure to Fund Account <sup>(1)</sup> . . . .	80%	Buy Units & increase to 100%	100%

(1) % exposure to the Fund Account =  $\frac{FAV}{NAV}$

### Protection Event

In the example below, the NAV of the Notes decreases from \$96.00 to \$77.22 and the cost of the Floor remains constant, resulting in the Distance decreasing to 4.50%. This produces a Protection Event, where all Units in the Fund Account are notionally redeemed and the remaining proceeds used to notionally purchase Bonds in the Bond Account.

	Assumptions	Protection Event	
		At Protection Event	After Protection Event
NAV — (Note NAV per \$100.00) . .	\$ 96.00	\$77.22	\$77.22
Floor — (Cost of Notional Bond) . .	\$ 72.72	\$72.72	\$72.72
Distance — (NAV — Floor/100) . . .	23.28%	4.50%	n/a
FAV — (Fund Account Value) . . . .	\$ 96.00	\$77.22	\$0.00
Bond Account Value . . . . .	\$ 0.00	\$0.00	\$77.22
% Change in Note NAV From			
Issue . . . . .	0.00%	– 18.78%	– 18.78%
% Exposure to Fund Account <sup>(1)</sup> . . .	100%	Redeem All Units and reduce to 0%	0.00%

### Variable Return

#### General

Subject to the occurrence of a Market Disruption Event, an Extraordinary Event or a Protection Event, an Investor will be paid the Variable Return, if any, at the Maturity Date, subject to the provisions and conditions described or contemplated in this Information Statement. The Variable Return, if any, is linked to the performance of the Portfolio, the assets of which will be allocated as described above under “Description of the Notes — Asset Allocation and the Asset Allocation Calculation”. Allocations will be made no more frequently than monthly, if at all, in accordance with the Asset Allocation Calculation based on the value of the notional Units and the Bonds, interest rates and other factors on a Valuation Date.

The Variable Return calculation is the formula used to determine the Variable Return on the Notes at the Maturity Date. The Variable Return per Note is calculated as follows:

$$\text{Variable Return} = \text{Principal Amount } (\$100) \times \text{Portfolio Performance}$$

Where:

$$\text{Portfolio Performance} = \frac{\text{NAV}_{\text{FINAL}} - 100}{100}$$

- “NAV<sub>FINAL</sub>” means, at any time (expressed pro rata per Note), the notional proceeds from the liquidation of the Fund Account plus the maturity value of the Bond Account as calculated by the Calculation Agent, minus repayment of any accrued and unpaid Program Fees.

Portfolio Performance will be the amount, if any, determined on the Maturity Date and expressed as a percentage of the Principal Amount, by which the pro rata value of the Portfolio per Note exceeds the Principal Amount, being \$100. An Investor cannot elect to receive the Variable Return, if any, prior to the Maturity Date and the Notes cannot be redeemed or retracted prior to the Maturity Date. **For any Variable Return to be paid to Investors, the performance of the Portfolio must exceed the Program Fees and the performance fees. See “Risk Factors”.**

**There is a possibility that an Investor may not receive any Variable Return.** No Variable Return will be paid unless the Portfolio Performance (which is net of Program Fees) per Note is greater than 0% (i.e. unless the pro rata value of the Portfolio at the Maturity Date is greater than \$100 per Note). In addition, if a Protection Event, a Market Disruption Event or an Extraordinary Event occurs, the Variable Return may be zero. Investors

(1) % exposure to the Fund Account =  $\frac{\text{FAV}}{\text{NAV}}$

may only receive their Principal Amount on the Maturity Date. All applicable Program Fees will be paid by the 0.50% coupon on the notional Bonds until the Maturity Date.

In no event will payment of the Principal Amount or the Variable Return, if any, be made by the Bank earlier than the Maturity Date. Subject to the matters referred to under “Description of the Notes — Special Circumstances”, the Fund Account will be notionally liquidated on the Valuation Date immediately preceding the Maturity Date at then prevailing net asset value per Unit determined by the Calculation Agent. The timing and manner of determining the Variable Return, if any, may be affected by the occurrence of Market Disruption Events. See “Description of the Notes — Special Circumstances”.

### **Special Circumstances**

During the term of the Notes, certain events affecting the Notes and the Units may occur. Following the occurrence of any such event, the Calculation Agent may be required to make decisions with respect to the Notes relating to the payment and/or calculation of Variable Return, if any, and the valuation of the Units in the Fund Account. In connection with the foregoing, the Calculation Agent will make its calculations and determinations in good faith and using commercially reasonable procedures in order to produce a commercially reasonable result; provided, however, that absent manifest error, all of the Calculation Agent’s calculations and determinations will be final and binding on Investors, without any liability on the part of the Bank, the Calculation Agent or the Selling Agent, and Investors will not be entitled to any compensation from the Bank, the Calculation Agent or the Selling Agent for any loss suffered as a result of any of the Calculation Agent’s calculations or determinations. See “Risk Factors”.

#### ***Market Disruption Event***

If the Calculation Agent determines that a Market Disruption Event in respect of the Units has occurred or is continuing, then the determination of whether any Allocation Event that would otherwise have occurred on a Month End Valuation Date will be postponed, subject as set forth below, to the next Month End Valuation Date on which there is no Market Disruption Event in effect. Accordingly, the determination of whether a Bond Allocation Event, a Fund Allocation Event or a Protection Event has occurred will be postponed until such Month End Valuation Date and the Calculation Agent will not be required to take any action with respect to any notional sales, redemptions or purchases of Units or Bonds, until such date, if at all, based upon the Distance at the immediately preceding Rebalancing Valuation Date.

Alternatively, if a Market Disruption Event occurs, the Calculation Agent may, in its discretion, designate that event as an Extraordinary Event, with the consequences described under “Description of the Notes — Special Circumstances — Extraordinary Event”.

Subject to the occurrence of a Market Disruption Event, payment of the Variable Return, if any, is expected to occur on the Maturity Date. If a Market Disruption Event occurs and is resolved by the Rebalancing Valuation Date that is at least 10 Business Days prior to the Maturity Date, payment of the Principal Amount and Variable Return, if any, will occur on the Maturity Date. If a Market Disruption Event occurs and is not resolved by the nearest Rebalancing Valuation Date that is at least 10 Business Days prior to the Maturity Date, payment of the Principal Amount will occur on the Maturity Date, and payment of the Variable Return, if any, will occur as soon as practicable following resolution of the Market Disruption Event and, in any event, not later than 180 days after the Maturity Date. If the Market Disruption Event is not resolved by the 175<sup>th</sup> day after the Maturity Date, the Calculation Agent shall, in its sole discretion, following consultation with the Fund Manager, determine the net asset value per Unit as of the Business Day immediately preceding such date using the Calculation Agent’s good faith estimate, without liability on the part of the Calculation Agent, of the net asset value per Unit on such Business Day and taking into account all market circumstances considered by the Calculation Agent to be relevant acting reasonably and calculate and pay the Variable Return, if any, utilizing such net asset value per Unit.

#### ***Extraordinary Event***

If an Extraordinary Event occurs, the Calculation Agent may determine that the Notes will no longer have exposure to the Units and the Portfolio may consist only of Bonds until the Maturity Date. Upon such

determination by the Calculation Agent, no further Variable Return will be earned on the Notes, even though the Units may earn a positive return following the occurrence of an Extraordinary Event. At the sole discretion of the Calculation Agent, if the circumstances giving rise to the Extraordinary Event no longer exist or are determined by the Calculation Agent to have been adequately resolved, the Calculation Agent may, but is not required to, reallocate the assets of the Portfolio according to the Asset Allocation Calculation. **If an Extraordinary Event occurs, the possibility of an Investor receiving any payment in excess of the Principal Amount at the Maturity Date may be significantly reduced.** Following the occurrence of an Extraordinary Event, an Investor would continue to be able to sell a Note in accordance with the terms of, and subject to the restrictions of, any secondary market then offered by the Selling Agent. See “Description of the Notes — Secondary Trading”.

For the avoidance of doubt, if an Extraordinary Event occurs, neither payment of the Variable Return, if any, or payment of the Principal Amount per Note will be accelerated.

## Secondary Trading

**There is currently no market through which the Notes may be sold.** There can be no assurance that a secondary market for the Notes will develop or, if such market does develop, that it will be sustained or liquid. The Notes will not be listed on any stock exchange. The Selling Agent intends to use reasonable efforts to initiate and maintain a monthly secondary market for the Notes on the last trading day of each month on which the TSX is open for business, but reserves the right not to do so in the future in its sole discretion, without providing prior notice to the Investors. These efforts will consist of posting a Bid Price through FundSERV for the Notes. In order to sell Notes to the Selling Agent in any month, an Investor must notify the Selling Agent on or prior to the 12<sup>th</sup> Business Day prior to the Month End Valuation Date on which the Investor wishes to sell. Subject as set forth herein, the Selling Agent will purchase such Notes on the last trading day of such month on which the TSX is open for business at the then current Bid Price less any applicable Early Trading Charge. **Accordingly, to the extent that a secondary market is available, Investors will be able to sell Notes only one day per month during the term of the Notes and the Bid Price at which Notes will be purchased may be different than the Bid Price in effect at the date the sale notice is given by the Investor.** The Selling Agent may, for any reason, elect not to purchase Notes from any particular Investor and may, in its sole discretion, limit the number of Notes to be purchased from any particular Investor at any time. Each sale of a Note to the Selling Agent will be effected at a price equal to: (i) the Bid Price for the Note; minus (ii) any applicable Early Trading Charge. See “Description of the Notes — Early Trading Charge”. See “FundSERV” for details regarding secondary trading where the Notes are held through participants in FundSERV.

The Principal Amount of a Note is repaid by the Bank only at the Maturity Date. There is no assurance that any premium that may have been paid by an Investor having purchased Notes in the secondary market will be recouped. The price that the Selling Agent will pay to an Investor for a Note on any Note Purchase Date prior to the Maturity Date will be determined by the Selling Agent, acting in its sole discretion, and will be based on, among other things: (i) how much the value of the assets in the Portfolio have risen or fallen since the Issue Date; (ii) the fact that assets in the Portfolio will be reallocated from time to time between the Fund Account and the Bond Account during the term of the Notes; and (iii) a number of other interrelated factors including, without limitation, volatility of the value of the notional assets in the Portfolio, prevailing interest rates and the time remaining to the Maturity Date. The relationship among these factors is complex and may also be influenced by various political, economic and other factors that can affect the trading price of a Note. In particular, Investors should realize that the secondary market price for the Notes: (i) may not rise and fall with changes in the net asset value of the Units; and (ii) may be substantially affected by changes in current interest rates independent of performance of the notional assets in the Portfolio. Investors may wish to consult their investment advisors concerning whether it would be more appropriate in the circumstances at any time to sell or to hold their Notes until the Maturity Date.

While the Selling Agent will use reasonable efforts, the Selling Agent is under no obligation to facilitate or arrange for such a secondary market, and such secondary market, when commenced, may be suspended at any time at the sole discretion of the Selling Agent, without notice. If there is no secondary market, an Investor will not be able to sell its Notes. The Notes are intended to be instruments held to the Maturity Date. **The Principal Amount of a Note is guaranteed to be repaid only if the Note is held to the Maturity Date.**

If an Investor sells Notes prior to maturity, the Investor may have to do so at a discount from the Principal Amount even if the performance of the Portfolio has been positive and, as a result, the Investor may suffer losses. See “Risk Factors — Liquidity Risk and Secondary Market”.

An Investor will not be able to redeem Notes prior to the Maturity Date.

## Early Trading Charge

A sale of the Notes prior to the Maturity Date may be subject to the Early Trading Charge. If a Note is sold to the Selling Agent within the first three years following the Issue Date, the proceeds from the sale of the Note will be reduced by an Early Trading Charge expressed as a percentage of the Principal Amount of the Note as follows:

<u>If Sold Within</u>	<u>Early Trading Charge</u>
1 year . . . . .	5.95%
2 years . . . . .	3.50%
3 years . . . . .	1.25%
Thereafter . . . . .	Nil

An Investor should understand that any valuation price for the Notes appearing on its investment account statement, as well as any Bid Price quoted to the Investor to sell Notes prior to the Maturity Date, will be before the application of any applicable Early Trading Charge. An Investor wishing to sell Notes prior to the Maturity Date should consult its investment advisor about whether an Early Trading Charge applies and, if so, how much it will be.

The Notes are generally not suitable for an investor who requires liquidity prior to the Maturity Date. An Investor should consult his or her investment advisor as to whether it would be more favourable in the circumstances at any time, to sell Notes (assuming the availability of a secondary market) or to hold the Notes until the Maturity Date. An Investor should also consult his or her tax advisor as to the income tax consequences arising from a sale prior to the Maturity Date as compared to holding the Note until the Maturity Date. See “Certain Canadian Federal Income Tax Considerations”.

The Selling Agent and/or any of its affiliates may, at any time, subject to the applicable laws, purchase Notes at any price in the open market or by private agreement.

## Rank; No Deposit Insurance

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

## Credit Rating

**The Notes have not been rated.** As of the date of this Information Statement, the deposit liabilities of the Bank with a term to maturity of more than one year are rated AA by DBRS, AA – by S&P and Aa1 by Moody’s. There can be no assurance that, if the Notes were specifically rated by these rating agencies, they would have the same rating as the other deposit liabilities of the Bank. **A rating is not a recommendation to buy, sell or hold investments, and may be subject to revision or withdrawal at any time by the relevant rating agency.**

## Settlement of Payments

The Bank will be required to make available to CDS, no later than 10:00 a.m. (Toronto time) on the Maturity Date, funds in an amount sufficient to pay the amounts due under the Notes. Payment of the Variable Return, if any, may be delayed in certain circumstances. See “Description of the Notes — Special Circumstances”.

All amounts payable in respect of the Notes will be made available by the Bank through CDS or its nominee. CDS or its nominee will, upon receipt of any such amount, facilitate payment to the applicable CDS Participants or credit the account of such CDS Participants, in amounts proportionate to their respective interests as shown on the records of CDS.

The Bank expects that payments by CDS Participants to Investors will be governed by standing instructions and customary practices, as is the case with securities or instruments held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of such CDS Participants. The responsibility and liability of the Bank in respect of Notes represented by a Global Note is limited to making payment of the amounts due in respect of the Global Note to CDS or its nominee. Neither the Bank nor any of its affiliates will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership of the Notes represented by the Global Note or for maintaining, supervising or reviewing records relating to any such ownership.

The Bank retains the right, as a condition to payment of amounts at the Maturity Date, to require the surrender for cancellation of any certificate evidencing the Notes.

Neither the Bank nor CDS will be bound to recognize 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.

### **Deferred Payment**

Federal laws of Canada preclude the charging of interest or other amounts for the advancing of credit at effective rates in excess of 60% per annum. When any payment is to be made by the Bank to an Investor at the Maturity Date, payment of a portion of such payment constituting a Variable Return that would exceed 60% per annum may be deferred to ensure compliance with such laws. In addition, the Bank may withhold a portion of any payment to an Investor that the Bank is legally able or required to withhold. The Bank will pay the portion so deferred to the Investor together with interest at the Bank's equivalent term deposit rate as soon as Canadian law permits.

### **Form of the Notes**

#### *General*

Each Note will be represented by a global Note representing the entire issuance of Notes. The Bank will issue Notes evidenced by certificates in definitive form to a particular Investor only in limited circumstances.

#### *Global Note*

The Bank will issue the registered Notes in a form of a fully registered global Note that will be deposited with a depository (initially being CDS) and registered in the name of such depository or its nominee in a denomination equal to the aggregate Principal Amount of the Notes. Unless and until it is exchanged in whole for Notes in definitive registered form, the registered global Note may not be transferred except as a whole by and among the depository, its nominee or any successors of such depository or nominee.

The Bank anticipates that the following provisions will apply to all arrangements in respect of a depository.

Ownership of beneficial interests in a global Note will be limited to persons, called participants, that have accounts with the relevant depository or persons that may hold interests through participants. Upon the issuance of a registered global Note, the depository will credit, on its book-entry registration and transfer system, the participants' accounts with the respective Principal Amounts of the Notes beneficially owned by the participants. Any dealers participating in the distribution of the Notes will designate the accounts to be credited. Ownership of beneficial interests in a registered global Note will be shown on, and the transfer of ownership interests will be effected only through, records maintained by the depository, with respect to interests of participants, and on the records of participants, with respect to interests of persons holding through participants.

So long as the depository, or its nominee, is the registered owner of a registered global Note, that depository or its nominee, as the case may be, will be considered the sole owner or Investor of the Notes represented by the registered global Note for all purposes. Except as described below, owners of beneficial interests in a registered global Note will not be entitled to have the Notes represented by the registered global Note registered in their names, will not receive or be entitled to receive physical delivery of the Notes in definitive form and will not be considered the owners or Investors of Notes. Accordingly, each person owning a beneficial interest in a registered global Note must rely on the procedures of the depository for that registered global Note and, if that

person is not a participant, on the procedures of the participant through which the person owns its interest, to exercise any rights of an Investor. The Bank understands that under existing industry practices, if the Bank requests any action of Investors or if an owner of a beneficial interest in a registered global Note desires to give or take any action that an Investor is entitled to give or take in respect of the Notes, the depositary for the registered global Note would authorize the participants holding the relevant beneficial interests to give or take that action, and the participants would authorize beneficial owners owning through them to give or take that action or would otherwise act upon the instructions of beneficial owners holding through them.

Payments on the Notes represented by a registered global Note registered in the name of a depositary or its nominee will be made to the depositary or its nominee, as the case may be, as the registered owner of the registered global Note. The Bank will not have any responsibility or liability for any aspect of the records relating to payments made on account of beneficial ownership interests in the registered global Note or for maintaining, supervising or reviewing any records relating to those beneficial ownership interests.

The Bank expects that the depositary for any of the Notes represented by a registered global Note, upon receipt of any payment on the Notes, will immediately credit participants' accounts in amounts proportionate to their respective beneficial interests in that registered global Note as shown on the records of the depositary. The Bank also expects that payments by participants to owners of beneficial interests in a registered global Note held through participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of those participants.

#### *Definitive Notes*

If the depositary for any of the Notes represented by a registered global Note is at any time unwilling or unable to continue to properly discharge its responsibilities as depositary, and a successor depositary is not appointed by the Bank within 90 days, the Bank will issue Notes in definitive form in exchange for the registered global Note that had been held by the depositary.

In addition, the Bank may at any time and in its sole discretion decide not to have any of the Notes represented by one or more registered global Notes. If the Bank makes that decision, the Bank will issue Notes in definitive form in exchange for all of the registered global Notes representing the Notes.

Except in the circumstances described above, beneficial owners of the Notes will not be entitled to have any portions of such Notes registered in their name, will not receive or be entitled to receive physical delivery of the Notes in certificated, definitive form and will not be considered the owners or Investor of a global Note.

Any Notes issued in definitive form in exchange for a registered global Note will be registered in the name or names that the depositary gives to the Bank or its agent, as the case may be. It is expected that the depositary's instructions will be based upon directions received by the depositary from participants with respect to ownership of beneficial interests in the registered global Note that had been held by the depositary.

The text of any Notes issued in definitive form will contain such provisions as the Bank may deem necessary or advisable. The Bank 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 offices of the Bank, or at such other offices notified by the Bank to Investors.

No transfer of a definitive Note will be valid unless made at such offices upon surrender of the certificate in definitive form for cancellation with a written instrument of transfer in form and as to execution satisfactory to the Bank or its agent, and upon compliance with such reasonable conditions as may be required by the Bank or its agent and with any requirement imposed by law, and entered on the register.

Payments on a definitive Note will be made by cheque mailed to the applicable registered Investor at the address of the Investor appearing in the aforementioned register in which registrations and transfers of Notes are to be recorded or, if requested in writing by the Investor at least five Business Days before the date of the payment and agreed to by the Bank, by electronic funds transfer to a bank account nominated by the Investor with a bank in Canada. Payment under any definitive Note is conditional upon the Investor first delivering the

Note to the Bank which reserves the right, in the case of payment of Variable Return and the Principal Amount under the Note in full, to retain the Note and mark the Note as cancelled.

### **Dealings in Units**

The Bank and its affiliates may from time to time, in the course of its normal business operations, hold Units or other securities of the Fund or any Underlying Fund or interests linked to the Units or such securities. The Bank and its affiliates may deal in the Units and other securities of the Fund and may, where permitted, accept deposits from, make loans or otherwise extend credit to, and generally engage in any kind of commercial or investment banking or other business with the Fund, any Underlying Fund, the Fund Manager and/or any issuer the securities of which may, from time to time, be held by the Fund or any Underlying Fund or any other person or entity having obligations relating to such issuer and may engage in proprietary trading in the Units, other securities of the Fund or the securities of any Underlying Fund or any issuer represented, from time to time, in the Fund or any Underlying Fund or in options, futures or derivatives relating to such securities (including such trading as the Bank may deem appropriate, in its discretion, to hedge any risk in connection with the Notes) and may act with respect thereto in the same manner as it would if the Notes did not exist, regardless of whether any such action may have an adverse effect on the net asset value of the Units and thus the Variable Return, if any, payable in respect of the Notes. The Bank and its affiliates may, whether by virtue of the relationships described above or otherwise, from time to time be in possession of information in relation to the Fund, any Underlying Fund or any issuer represented, from time to time, in the Fund or any Underlying Fund, that may not be publicly available or known to Investors, and the Notes do not create an obligation on the part of the Bank or its affiliates to disclose to Investors such relationship or information (whether or not confidential).

### **Notification**

All notices to Investors regarding the Notes will be valid and effective: (i) if such notices are given (which notice may be given by wire or fax) to the applicable depository (initially being CDS) and its relevant participants; or (ii) in the case where the Notes are directly registered in the Investors' names and issued in definitive form, if such notices are mailed or otherwise delivered to the registered addresses of the Investors; provided, however, that any required notice of an Extraordinary Event or Market Disruption Event will also be published in the Toronto and national editions of a major daily English language Canadian newspaper with national circulation and in a daily French language newspaper of general circulation in Montreal.

### **Amendments to the Notes**

The terms of the Notes may be amended without the consent of the Investors by the Bank and if, in the reasonable opinion of the Bank, the amendment would not materially and adversely affect the interests of the Investors. In other cases, the terms of the Notes may be amended if the Bank proposes the amendment and if the amendment is approved by a resolution passed by the favourable votes of the Investors holding not less than 66 $\frac{2}{3}$ % of the Principal Amount of the Notes represented at a meeting convened for the purpose of considering the resolution. The quorum for a meeting of Investors is at least two Investors represented in person or by proxy holding at least 10% of the Principal Amount of the Notes outstanding. If a quorum is not present at a meeting within 30 minutes after the time fixed for the meeting, the meeting will be adjourned to another day, not less than 10 days or more than 21 days later, selected by the Bank and notice will be given to the Investors of such adjourned meeting. The Investors present at the adjourned meeting will constitute a quorum. Each Investor is entitled to one vote per Note held by such Investor for the purposes of voting at meetings.

The Notes do not carry the right to vote in any other circumstances.

### **Investor's Right of Rescission**

A person may rescind any order to buy a Note (or its purchase if issued) within 48 hours of the earlier of actual receipt and deemed receipt of the Information Statement. Upon rescission, the person is entitled to a refund of the Principal Amount. This rescission right does not extend to Investors buying a Note in the secondary market. A person will be deemed to have received the Information Statement: (i) on the day recorded

as the time of sending by the server or other electronic means, if provided by electronic means; (ii) on the day recorded as the time of sending by fax, if provided by fax; (iii) five days after the postmark date, if provided by mail, and (iv) when it is received, in any other case.

## HEDGE FUNDS AND THE FUND<sup>(1)</sup>

### The Hedge Fund Industry

The Fund is a fund of hedge funds. Hedge funds are pooled investment portfolios that are distinguishable from traditional investment funds in a number of ways. Hedge funds are generally privately offered funds that are not open for investment by the general public. As private portfolios, hedge funds usually have a great degree of latitude in terms of investment mandate and may make use of leverage from time to time. Unlike most mutual funds, which are limited to long positions in securities, hedge funds can also engage in the short sale of investments or use other techniques with the objective of reducing market exposure and enhance the rate of return. Hedge funds are established to pursue a particular trading strategy or series of strategies. The hedge fund industry dates back to 1949. Historically they have been termed “hedge funds” because certain managers have constructed their portfolios with long and short positions with the goal of lessening the sensitivity of the fund to broad market fluctuations. The initial focus of the industry was to hedge away market risk in a common stock portfolio. As the industry has grown, the range of securities contemplated for hedge funds has greatly expanded. Today there is also a great diversity in the range of hedge fund strategies that are available to investors. With over 6,000 hedge funds and world-wide assets of close to US\$2 trillion, the industry is a major force in world capital markets.

Hedged investing encompasses a wide variety of investment strategies. Many of these strategies seek to exploit securities mispricings without taking an overall directional position in the markets. Hedged strategies are also distinguished by their low correlation to the returns and direction of debt, equity and other markets and by their absolute return focus. Within the hedge fund universe, there are a broad range of styles and methodologies which the Fund Manager believes can be grouped into one of four general categories.

#### *Relative Value Strategies*

Relative value based strategies are typically “market neutral” strategies, i.e. they seek to neutralize certain market risks by taking offsetting long and short positions in securities (bonds, stocks, etc.) with actual or theoretical relationships. Generally, relative value strategies have low correlation to stock and bond markets. Therefore, market neutral type strategies do not eliminate risk entirely but rather allow managers to reduce or eliminate unwanted risk and replace it with the risk exposures they want to maintain. Because relative value strategies are generally dependent on relationships to generate returns, the stability, or lack thereof, in those relationships determines returns. Examples of relative value strategies include convertible bond arbitrage, fixed income arbitrage and equity market neutral.

#### *Convertible Bond Arbitrage*

This strategy attempts to take advantage of relative pricing discrepancies between a convertible bond and the underlying equity of the issuing firm. The value of the inherent option of a convertible bond is hedged with a short position in the stock (or a corresponding option position on the stock). Positive cash flows are generated from the convertible bond coupon and the rebate earned on the proceeds of the equity short sale. Profits can be enhanced by volatility in the underlying stock and trading profits. As the equity exposure inherent in the convertible bond is hedged, this arbitrage strategy is generally less risky than investing in convertible bonds on a stand-alone basis. However, convertible bond arbitrage may have default risk, interest rate risk and equity risk.

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(1) Source: Arrow Hedge Partners Inc. Statements made in this section of the Information Statement are derived from the Offering Memorandum for the Fund prepared by Arrow Hedge.

### *Fixed Income Arbitrage*

This strategy involves the purchase and short sale of different fixed income securities and seeks to profit from the yield spreads between different classes of fixed income securities while simultaneously creating a position that is relatively insensitive to interest rate fluctuations. Spreads between federal, provincial, municipal and corporate bond yields may be exploited. Derivative securities may be used to hedge interest rate exposure and leverage is frequently used to enhance returns.

### *Equity Market Neutral*

Equity market neutral strategies generate consistent returns from being simultaneously long and short in a relatively large number of positions which offer equal amounts of capital (“dollar neutral”) for a negligible total net exposure. Many equity market neutral managers extend the idea of neutrality to include concepts such as beta, sector, style, market capitalization and price neutrality to eliminate most sources of market or systemic risks. In essence, equity market neutral managers attempt to generate absolute returns regardless of the direction of equity markets. The key risks associated with this strategy are model risk and trading costs. As leverage is typically two to three times equity, the manager must demonstrate an ability to handle the many risk factor exposures present in these strategies.

### *Event Driven Strategies*

Event driven strategies focus on exploiting the mispricing of securities that are the result of extraordinary transactions or situations in the market. These corporate events typically include mergers and acquisitions, liquidations, bankruptcies or special situations. The dynamics of the transactions create strategies that generally exhibit returns that are not market dependent and are often structured to be market neutral. However, the correlation of these strategies to equity markets is generally higher than relative value strategies. Examples of event driven strategies include risk or merger arbitrage and distressed/high yield securities.

### *Risk or Merger Arbitrage*

This strategy usually focuses on companies involved in a merger or acquisition. Merger arbitrage managers are typically long the stock of the company being acquired and short the stock of the acquiring company. This position is hedged to profit from the convergence of the stocks to the same value at the time of the merger. The key risk in merger arbitrage is that the deal may not be consummated.

### *Distressed/High Yield Securities*

Hedge funds that invest in distressed securities invest in the debt, equity or trade claims of companies that are in financial distress or bankruptcy. These securities generally trade at substantial discounts to fair value due to the market’s overreaction to initial news of the distressed situation. High yield hedge funds are similar to distressed securities strategies with the important difference that the debt purchased by the fund is usually not in bankruptcy. As there tends to be better liquidity and a public market (although often very thin), returns are generally less than for hedge funds which invest in distressed securities, but volatility is also reduced.

### *Equity Hedge (Long/Short Equity) Strategies*

Equity hedge strategies represent the largest constituency of the hedge fund universe. Equity hedge strategies involve the combining of long stock holdings with short sales of stock or indices. Equity hedge fund managers use a number of different technical and fundamental measures to determine security selection. In contrast to equity market neutral strategies, equity hedge managers will maintain either net long or net short positions. Typically these portfolios are net long biased with a range of net long exposures between 20% and 50% depending on market conditions. On the other hand, some managers will maintain much higher net long exposures (greater than 70% net long) and could be classified in a different category of equity non-hedge.

### *Long/Short Macro*

Long/short macro strategies involve investing by making leveraged investments on anticipated price movement of stock markets, interest rates, foreign exchange and physical commodities. Macro managers employ a “top-down” global approach; and may invest in any market using any instrument to participate in expected market movements. These movements may result from forecasted shifts in world economies, political fortunes or global supply and demand for resources, both physical and financial. Exchange-traded and over-the-counter derivatives are often used to magnify these price movements. Long/short macro strategies can be either discretionary or systematic.

### *Discretionary*

This class is characterized by proprietary approaches employing technical and/or fundamental analysis in a specific combination. The strategies are usually either short-term based or consist of spread trading approaches.

### *Systematic*

Proprietary computer models generate buy and sell decisions. The models utilize quantitative analysis of different technical factors. The most typical example of this class are trend following or counter-trend models. The trading is almost 100% systematic, i.e. no human interference with the trading decision.

In addition to the above strategies, the Fund may also invest in Underlying Funds which utilize other strategies and financial instruments, including, but not limited to, capital structure arbitrage, warrant hedging, short selling, volatility arbitrage, mortgage-backed securities arbitrage, option strategies, financial futures, commodity futures, index arbitrage, and convertible preferred shares. The above list is not intended to be a comprehensive list of hedge strategies, nor are the descriptions necessarily the only ways in which such strategies are employed.

### **Arrow Hedge**

Arrow Hedge is an investment management company that specializes in providing access to high quality hedge fund managers and multi-manager funds of funds to a wide range of clients including family offices, institutions, pension funds and high net worth individuals.

Arrow Hedge was founded in December 1999 by Jim McGovern, the former CEO and co-founder of BPI Financial Corporation (“BPI”), a Canadian based investment manager. BPI managed over \$6 billion on behalf of retail and institutional clients in Canada and the United States prior to its purchase in August 1999 by C.I. Fund Management Inc. Mr. McGovern has been active in the international hedge fund community since 1995 and was a pioneer in introducing hedge funds to the Canadian high net worth market. Arrow Hedge is registered with the Ontario Securities Commission as an investment counsel, portfolio manager, commodity trading manager and a limited market dealer. Arrow Hedge is also a member of the Alternative Investment Management Association (AIMA) based in the United Kingdom. Arrow Hedge is headquartered in Toronto, Canada with representative offices in Montréal, Calgary, Vancouver, Geneva and Barbados. Arrow Hedge currently manages hedge funds with assets in excess of \$850 million.

The principals of Arrow Hedge have personally invested over \$45 million in the various Arrow Hedge funds.

### **The Fund**

The Fund is an unincorporated open-end fund of hedge funds created on January 1, 2002 under the laws of the Province of Ontario. Arrow Hedge is the trustee as well as the Fund Manager and the promoter of the Fund.

### *Investment Objective*

The objective of the Fund is to seek consistent, absolute rates of return while maintaining a low level of volatility and low correlation to major stock and bond market indices by investing its assets with a selected group of Managers.

### ***Investment Strategies***

To achieve its objective, the Fund will invest in Underlying Funds, being funds that employ a variety of strategies including, but not limited to, long and short equity, merger arbitrage, high yield securities, convertible bond arbitrage, global macro and equity market neutral, although other strategies may be utilized. The Fund's investments will include, but not be limited to, funds independent from Arrow Hedge and funds created or managed by Arrow Hedge, having independent portfolio managers appointed by Arrow Hedge. The Underlying Funds may utilize a wide range of equity and debt securities and other financial instruments that may be either listed on recognized stock exchanges or unlisted. The Underlying Funds may employ leverage and short selling to enhance returns and use a combination of cash, short position, options futures, swaps and other derivative instruments to increase, moderate or eliminate their exposure to market direction.

The Fund may from time to time also hold cash and/or money market instruments. The Fund aims to reduce its volatility by diversification across fund managers and the trading strategies employed. Allocation to Underlying Funds will be closely monitored and reviewed on at least a quarterly basis by Arrow Hedge in an attempt to optimize the Fund's risk and return characteristics. The Fund Manager will also monitor and review the risk and return characteristics of the combined investments of the Underlying Funds. If, in the Fund Manager's opinion, these risk and return characteristics are not optimal, the Fund will make investments to attempt to optimize the Fund's risk and return characteristics. These investments may include, but are not limited to, cash, equity or debt securities, short selling, options, futures, swaps and other derivative instruments.

At the date of this Information Statement, the Fund is invested in approximately 25 Underlying Funds, employing the following strategies: equity hedge, risk arbitrage, global macro, fixed income arbitrage, convertible arbitrage, distressed securities, equity market neutral and high yield.

Prior to the Fund making an investment, the Fund Manager conducts thorough and extensive research and due diligence. Numerous quantitative and qualitative factors are considered, including the background and experience of the Managers, their track record, investment process, risk management systems, the infrastructure and organization of the Managers, the size and growth of the assets under management, hedging techniques and the Managers' use of leverage.

Since it is expected that some of the Underlying Funds will not be denominated in the same currency as the Units, the Fund will use its best efforts, on an on-going basis, to hedge its currency exposure to the fluctuation of the Underlying Funds currency compared to the currency of the Units by using over the counter foreign exchange forward contracts and foreign exchange spot transactions.

### ***Net Asset Value***

The Fund Manager will determine the net asset value of the Fund attributable to each class of units (including the Units) on each Valuation Date. Investors may generally access this information in Canadian national newspapers. The net asset value is calculated by aggregating the value of the assets of the Fund attributable to the Units, deducting therefrom the liabilities of the Fund attributable to the Units (including relevant management and performance fees) as well as the Units' proportionate share of the liabilities of the Fund that are not specifically related to any class of units of the Fund, and dividing the resulting amount by the number of outstanding Units. The net asset value will be denominated in Canadian dollars. The Fund Manager has retained the services of PricewaterhouseCoopers LLP as auditors of the Fund. The auditors will review every month the calculation of the net asset value.

### ***Suspension of Redemptions***

The Fund may suspend the redemption of Units in the following circumstances:

- (i) for any period when normal trading is suspended on any stock, options or other exchange or market, within or outside of Canada on which securities are listed and traded, or on which derivatives are traded which represent more than 50% by value or underlying market exposure of the total assets of the Fund, without allowance for liabilities; or
- (ii) provided that such suspension or postponement complies with applicable securities legislation.

## INTEREST ON SUBSCRIPTION PROCEEDS

Subscription proceeds submitted by Investors in advance of the Issue Date will be held in an account by the Selling Agent and will bear interest at an annual rate equal to 2%. A purchaser of Notes will receive credit for interest accruing on funds so delivered in the form of additional whole Notes. The number of additional Notes for a purchaser will equal the dollar amount of interest accrued on the funds delivered at a rate of 2% per annum from the date on which such funds are received, to but excluding the Issue Date, divided by the \$100 purchase price of a Note, rounded down to the nearest whole number. No fractional Notes will be issued. The purchaser will be required to include (in accordance with the detailed rules of the Act relating to the accrual and inclusion of interest), in computing its income for the purposes of the Act, the amount of such interest. Despite the delivery of such funds in respect of an offer to purchase Notes, the Bank reserves the right not to accept any such offer. If for any reason Notes are not issued to a person who has delivered such funds, delivered funds will be forthwith returned together with interest paid in cash at a rate of 2% per annum (calculated from the date the funds are received, to but excluding the date on which such funds are returned), subject to a minimum of \$100 and only in integral multiples of \$100 rounded down to the nearest integral multiple of \$100. The purchaser will be required to include (in accordance with the detailed rules of the Act relating to the accrual and inclusion of interest) in computing its income for the purposes of the Act, the amount of such interest. In any case, whether or not the Notes are issued, no other interest or other compensation will be paid to the purchaser in respect of delivered funds to or to the dealer or financial advisor representing such purchaser. The payment of any interest, whether or not in the form of additional Notes, is the responsibility of the Bank and the Selling Agent has no responsibility for the payment of such interest.

## FUNDSERV

### General

Some Investors may purchase Notes through dealers and other firms that facilitate purchase and related settlement through a clearing and settlement service operated by FundSERV Inc. (“FundSERV”). The following FundSERV information is pertinent for such Investors. Investors should consult with their financial advisors as to whether their Notes have been purchased through FundSERV and to obtain further information on FundSERV procedures applicable to those Investors.

Where an Investor’s purchase order for Notes is effected by a dealer or other firm through FundSERV, such dealer or other firm may not be able to accommodate a purchase of Notes through certain registered plans for purposes of the Income Tax Act (Canada). Investors should consult their financial advisors as to whether their orders for Notes will be made through FundSERV and any limitations on their ability to purchase Notes through certain registered plans.

FundSERV is owned and operated by both fund sponsors and distributors and provides distributors of funds and certain other financial products (including brokers and dealers who sell investment funds, companies who administer registered plans that include investment funds and companies who sponsor and sell financial products) with online order access to such financial products. FundSERV was originally designed and is operated as a mutual fund communications network facilitating the members in electronically placing, clearing and settling mutual fund orders. In addition, FundSERV is currently used in respect of other financial products that may be sold by financial planners, such as the Notes. FundSERV enables its participants to clear certain financial product transactions between participants, to settle the payment obligations arising from such transactions, and to make other payments between themselves.

### FundSERV Notes Held Through Scotia Capital Inc., a CDS Participant

As stated above, all Notes will initially be issued in the form of a fully registered global Note that will be deposited with CDS. Notes purchased through FundSERV (“FundSERV Notes”) will also be evidenced by that Global Note, as are all other Notes. See “Description of the Notes — Form of the Notes” above for further details on CDS as a depository and related matters with respect to the Global Note. Investors holding FundSERV Notes will therefore have an indirect beneficial interest in the Global Note. That beneficial interest will be recorded in CDS as being owned by Scotia Capital Inc., as a direct participant in CDS. Scotia Capital Inc. will in turn record in its records respective beneficial interests in the FundSERV Notes. An Investor should

understand that Scotia Capital Inc. will make such recordings as instructed through FundSERV by the Investor's financial advisor.

### **Purchase Through FundSERV**

In order to complete the purchase of FundSERV Notes, the full subscription price (i.e., the aggregate Principal Amount therefor) must be delivered to Scotia Capital Inc. in immediately available funds by no later than the Issue Date. Despite delivery of such funds, Scotia Capital Inc. reserves the right not to accept any offer to purchase FundSERV Notes. If FundSERV Notes are not issued to the Investor for any reason, such funds will be returned forthwith to the Investor.

A purchaser of Notes will receive credit for interest accruing on funds so delivered in the form of additional whole Notes. If for any reason Notes are not issued to a person who has delivered such funds, delivered funds will be forthwith returned together with interest paid in cash to the prospective purchaser's dealer or financial advisor through FundSERV. See "Interest on Subscription Proceeds" for details, including the tax treatment of such interest. In any case, whether or not the Notes are issued, no other interest or other compensation will be paid to the purchaser in respect of delivered funds to or to the dealer or financial advisor representing such purchaser. The payment of any interest, whether or not in the form of additional Notes, is the responsibility of the Bank and the Selling Agent has no responsibility for the payment of such interest.

### **Sale Through FundSERV**

An Investor wishing to sell FundSERV Notes prior to the Maturity Date is subject to certain procedures and limitations to which an Investor holding Notes through a "full service broker" with direct connections to CDS may not be subject. Any Investor wishing to sell a FundSERV Note should consult with his or her financial advisor in advance in order to understand the timing and other procedural requirements and limitations of selling. An Investor must sell FundSERV Notes by using the "redemption" procedures of FundSERV; any other sale or redemption is not possible. Accordingly, an Investor will not be able to negotiate a sales price for FundSERV Notes. Instead, the financial advisor for the Investor will need to initiate an irrevocable request to "redeem" the FundSERV Note in accordance with the then established procedures of FundSERV. Generally, this will mean the financial advisor will need to initiate such request by 1:00 p.m. (Toronto time) on a Business Day (or such other time as may hereafter be established by FundSERV) prior to the applicable Sale Notice Deadline. Any request received after such time will be deemed to be a request sent and received on the next following Business Day. Sale of the FundSERV Note will be effected at a sale price equal to (i) the "net asset value" of a Note as of the applicable Note Purchase Date as posted to FundSERV by Scotia Capital Inc., minus (ii) any applicable Early Trading Charge (as outlined under "Secondary Trading of Notes"). The "net asset value" of a Note will factor in accrued interest, if any. The Investor should be aware that, although the "redemption" procedures of FundSERV would be utilized, the FundSERV Notes of the Investor will not be redeemed by Scotia Capital Inc. but rather will be sold in the secondary market to Scotia Capital Inc. In turn, Scotia Capital Inc. will be able in its discretion to sell those FundSERV Notes to other parties at any price, to hold them in its inventory or to arrange for purchase for cancellation by the Bank.

Investors should also be aware that from time to time such "redemption" mechanism to sell FundSERV Notes may be suspended for any reason without notice, thus effectively preventing Investors from selling their FundSERV Notes. Potential Investors requiring liquidity should carefully consider this possibility before purchasing FundSERV Notes.

Scotia Capital Inc. is the "fund sponsor" for the FundSERV Notes within FundSERV. It is required to post a "net asset value" for the FundSERV Notes on a daily basis, which value may also be used for valuation purposes in any statement sent to Investors. See the second paragraph under the heading "Description of the Notes — Secondary Trading of Notes" for some of the factors that will determine the "net asset value" or Bid Price of the Notes at any time. The sale price will actually represent Scotia Capital Inc.'s Bid Price for the Notes as of the close of business for the applicable Business Day less any applicable Early Trading Charge. There is no guarantee that the sale price for any day is the highest bid price possible in any secondary market for the Notes, but will represent Scotia Capital Inc.'s Bid Price generally available to all Investors as at the relevant close of business, including clients of Scotia Capital Inc.

An Investor holding FundSERV Notes should realize that such FundSERV Notes may not be transferable to another dealer, if the Investor were to decide to move his or her investment account to such other dealer. In that event, the Investor would have to sell the FundSERV Notes pursuant to the procedures outlined above.

## FEES AND EXPENSES ASSOCIATED WITH THE NOTES

### Program Fee

The Notes will be subject to an annual Program Fee. The Program Fee will vary depending upon the relative allocation in the Portfolio between notional Units and the Bonds. The total Program Fee will be 3.75% for the portion of the Portfolio allocated to the Fund Account (including any Units notionally acquired on reinvestment), consisting of 1.70% which is paid to the Fund Manager, 0.50% paid to selling agents who sell notes (on the terms described below) and 1.55% paid to Scotia Capital for structuring the Notes and providing principal protection. The Program Fee is 0.50% for the portion of the Portfolio allocated to the Bond Account. The Program Fee will be calculated daily and payable quarterly in arrears to Scotia Capital, as Calculation Agent of the Notes. The 0.50% Program Fee on the portion of the Portfolio allocated to the Bonds is produced by the coupon on the Bonds. The 3.75% Program Fee on the portion of the Portfolio allocated to the Fund Account, which is 1.25% above the current management fee charged by the Fund Manager to the Fund, is generated by redeeming Units notionally held in the Fund Account.

The Bank will pay selling agents who sell Notes an annual fee, paid quarterly, of 0.50% of the average daily value of the Fund Account in each year of the term of the Notes. This fee will be paid out of the Program Fee. **Program Fees associated with the Notes will be deducted from the Fund Account periodically during the term of the Notes and prior to determining the amount of the Variable Return, if any, payable at maturity.**

The Bank will also pay a selling fee to qualified selling group members of \$4.00 per Note sold, which will reduce the amount invested initially in the Portfolio.

### Performance Fees

The Fund Manager is entitled to receive from the Fund an annual performance fee equal to 20% of the increase during the year in the value of each investment in an Underlying Fund. To the extent that the investment declines in any year, the negative amount will be carried forward and deducted from the value of the Underlying Fund used to calculate the performance fee in respect of such Underlying Fund in future years. **Performance fees may be reduced to ensure that any investments made by the Fund in Underlying Funds managed by Arrow Hedge will not result in duplication of performance fees paid to Arrow Hedge. Performance fees are calculated and paid annually to the Fund Manager. In the case of each Underlying Investment managed by a third party, the Fund may reduce the performance fee paid by it in respect of such investment by the amount of the performance fee payable by such Underlying Investment. The Fund accrues performance fees owing to the Fund Manager during any calendar year, based on the performance of each Underlying Fund since the beginning of the calendar year to any Valuation Date in that calendar year. The net asset value of a Unit on any Valuation Date is net of accrued performance fees as at such Valuation Date.**

The Fund is responsible for the payment of all fees and expenses relating to its on-going operations, including registrar and transfer agent fees and expenses, audit, accounting, administration, record keeping and legal fees and expenses, custody and safekeeping charges, all costs and expenses associated with the qualification and offering for sale of units of the Fund, providing financial reports and other communications reports to unitholders and regulators, and convening and conducting meetings of unitholders, all taxes, interest and all brokerage and other fees relating to the purchase and sale of the assets of the Fund.

**Management fees, performance fees and operating expenses, each of which are paid at the Fund level, will, generally, reduce the net asset value of the Units and, as a result, the amount of the Variable Return, if any, payable in respect of the Notes.**

## USE OF PROCEEDS

The Net Proceeds will not be held by the Bank in trust for the Investors of the Notes in any segregated or other account. Rather, the Bank will use the Net Proceeds of the Offering for its general banking purposes.

## CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of McCarthy Tétrault LLP, counsel to the Bank, 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 an Investor who purchases Notes at the time of their issuance (an “Initial Investor”). This summary is applicable only to an Initial Investor who is an individual (other than a trust) and, for the purposes of the Act, is a resident of Canada, deals at arm’s length, and is not affiliated, with the Bank and holds Notes as capital property. The Notes will generally be considered to be capital property to an Initial Investor unless: (i) the Initial Investor holds the Notes in the course of carrying on or otherwise as part of a business of trading or dealing in or buying and selling securities; or (ii) the Initial Investor acquired the Notes as an adventure in the nature of trade. The determination of whether the Notes are held as capital property for purposes of the Act should take into account, among other factors, whether the Notes are acquired with the intention or secondary intention of selling them prior to the Maturity Date. Certain Initial Investors resident in Canada whose Notes might not otherwise be considered to be capital property or who desire certainty with respect to the treatment of the Notes as capital property may be entitled to make an irrevocable election to have the Notes and all of the Initial Investor’s other “Canadian securities” deemed to be capital property pursuant to subsection 39(4) of the Act. This summary does not apply to an Initial Investor that is a corporation, partnership or trust, nor does it apply to the payment or credit of interest on the subscription price described under the heading “Interest on Subscription Proceeds”.

This summary is based on the current provisions of the Act and the regulations thereunder as in force on the date hereof (the “Regulations”), counsel’s understanding of the current administrative and assessing practices published in writing by the Canada Revenue Agency (the “CRA”) and all specific proposals to amend the Act and regulations thereunder publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (“Tax Proposals”) and assumes all Tax Proposals will be enacted substantially as proposed; however, no assurance can be given that the Tax Proposals will be enacted as proposed or at all. This summary does not, except for the Tax Proposals, otherwise take into account or anticipate any changes in law or the CRA’s administrative or assessing practices, whether by legislative, governmental or judicial decision or action. This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Notes and does not take into account provincial, territorial or foreign income tax legislation or considerations, which are not addressed in this summary.

**This summary is of a general nature only and is not intended to be legal or tax advice to any Investor. Investors should consult their own tax advisors for advice with respect to the income tax consequences of an investment in Notes, based on their particular circumstances.**

### Variable Return Prior to Maturity

A Note is a “prescribed debt obligation” within the meaning of the Act. The rules in the Regulations applicable to a prescribed debt obligation generally require a taxpayer to accrue the amount of any interest, bonus or premium receivable in respect of the obligation over the term of the obligation, based on the maximum amount of interest, bonus or premium that could be payable on the obligation. Based in part on an understanding of the CRA’s administrative practice with respect to prescribed debt obligations, other than as discussed below with respect to an Extraordinary Event or a Protection Event, there should be no deemed accrual of the Variable Return on the Notes under these provisions until the Initial Investor’s taxation year that includes the Maturity Date.

When in a particular taxation year, as a result of an Extraordinary Event or a Protection Event, the Variable Return is determined, the portion of the Variable Return that has accrued from the date of purchase of the Note up to the anniversary date of the Note in that particular taxation year generally will be required to be included in the Initial Investor’s income, except to the extent that the amount was otherwise included in income for the taxation year or a preceding taxation year. Thereafter, in each of the following taxation years, the annual accrual

rules in the Regulations applicable to a prescribed debt obligation will generally apply to include in the Initial Investor's income, the appropriate portion of the Variable Return.

The Bank will file an information return with the CRA in respect of any amount required to be included in an Initial Investor's income as described above and will provide the Initial Investor with a copy of such return.

### **Disposition of Notes**

On a disposition of a Note to the Bank at the Maturity Date, an Initial Investor will be required to include in income for the taxation year in which the disposition occurs, the amount, if any, of the Variable Return, except to the extent otherwise included in income in the taxation year or a preceding taxation year. The Bank will file an information return with the CRA in respect of any such amount to be included in an Initial Investor's income and will provide the Initial Investor with a copy of such return. The Initial Investor will realize a capital gain (or a capital loss) to the extent that the proceeds received from the Bank, less the Variable Return so included in income, exceed (or are less than) the aggregate of the Initial Investor's adjusted cost base of the Note and any reasonable costs of disposition.

In certain circumstances, where an Initial Investor assigns or otherwise transfers a debt obligation (other than as a consequence of a repayment at maturity), the amount of interest accrued on the debt obligation to that time, but unpaid, will be excluded from the proceeds of disposition of the obligation and will be required to be included as interest in computing the Investor's income for the taxation year in which the transfer occurs, except to the extent that it has been otherwise included in income for that year or a preceding year. Other than in the case of an Extraordinary Event or a Protection Event, there should be no amount in respect of the Variable Return that will be treated as accrued interest on an assignment or transfer of a Note prior to the Maturity Date. Except as described above regarding a payment at the Maturity Date by the Bank, while the matter is not free from doubt, an amount received by an Initial Investor on a disposition or deemed disposition of a Note should give rise to a capital gain (or capital loss) to the extent proceeds of disposition exceed (or are less than) the aggregate of the Initial Investor's adjusted cost base of the Note and any reasonable costs of disposition. **Initial Investors who dispose of Notes prior to the Maturity Date should consult their tax advisors with respect to their particular circumstances.**

One-half of a capital gain realized by an Initial Investor must be included in the income of the Initial Investor. One-half of a capital loss realized by an Initial Investor is deductible against the taxable portion of capital gains realized in the year, in the three preceding years or in subsequent years, subject to and in accordance with the rules in the Act.

Capital gains realized by an individual may give rise to a liability for alternative minimum tax.

### **PLAN OF DISTRIBUTION**

Each Note will be issued for a subscription price of 100% of the Principal Amount thereof (\$100 per Note). The subscription price was determined by negotiation between the Bank and the Selling Agent. **The Selling Agent is a wholly owned subsidiary of the Bank. As a result, the Bank is a related issuer of the Selling Agent under applicable Canadian securities legislation.**

The closing of this offering is scheduled to occur on or about June 29, 2007. The Bank may, at any time prior to the Issue Date, in its discretion, elect whether or not to proceed in whole or in part with the issue of the Notes. Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Upon acceptance of a subscription, the Selling Agent will deliver or cause to be delivered a confirmation of acceptance by prepaid mail or other means of delivery to the subscriber.

The Bank will pay selling expenses of \$4.00 per Note to qualified selling group members for selling the Notes. The selling expenses will be paid out of the proceeds of the offering. The Selling Agent may form a sub-agency group including other qualified selling members. While the Selling Agent has agreed to use its best efforts to sell the Notes offered hereby, the Selling Agent will not be obligated to purchase any Notes which are not sold. For greater certainty, the Selling Agent may purchase Notes offered hereby as principal.

A global Note for the full amount of the Offering will be issued in registered form to CDS and will be deposited with CDS on the Issue Date. Subject to certain exceptions, certificates evidencing the Notes will not be available to Investors under any circumstances and registration of interests in and transfer of Notes will be made through the Book-Entry System of CDS. See “Description of the Notes — Form of the Notes”.

In connection with the issue and sale of the Notes by the Bank, no person is authorized to give any information or to make any representation not expressly contained in this Information Statement or the global Note and the Bank does not accept responsibility for any information not contained herein or therein. This Information Statement does not constitute, and may not be used for the purposes of, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. The Notes have not, and will not be, registered under the 1933 Act or any State securities laws and, subject to certain exceptions may not be offered for sale, sold or delivered, directly or indirectly, in the United States, its territories or possessions or to or for the account or benefit of U.S. persons within the meaning of Regulation S under the 1933 Act. In addition, the Notes may not be offered or sold to residents of any jurisdiction or country of Europe.

Dealers may from time to time purchase and sell Notes in any available secondary market but are not obligated to do so. The offering price and other selling terms for such sales in a secondary market may, from time to time, be varied by such dealers.

The Bank reserves the right to issue additional Notes of this series or a series previously issued, and other debt securities which may have terms substantially similar to the terms of the Notes offered hereby, which may be offered by the Bank concurrently with the Notes. The Bank further reserves the right to purchase for cancellation at its discretion any amount of Notes in a secondary market, without notice to Investors.

## **DESCRIPTION OF THE BANK**

The Bank was granted a charter under the laws of the Province of Nova Scotia in 1832, and commenced operations in Halifax, Nova Scotia in that year. Since 1871, the Bank has been a chartered bank under the *Bank Act* (Canada) (The “Bank Act”). The Bank is a Schedule 1 bank under the Bank Act and the Bank Act is its charter. The head office of the Bank is located at 1709 Hollis Street, Halifax, Nova Scotia and the executive offices are at Scotia Plaza, 44 King Street West, Toronto, Ontario M5H 1H1. A copy of the Bank’s by-laws are available on [www.sedar.com](http://www.sedar.com).

The Bank is one of North America’s premier financial institutions and Canada’s most international bank. The Bank is a full-service financial institution, active in both domestic and international markets. In Canada, the Bank provides a full range of retail, commercial, corporate, investment and wholesale banking services through its extensive network of branches and offices across Canada. With close to 57,000 employees, the Bank and its affiliates have branches and offices serving almost 12 million customers in some 50 countries, which provide a wide range of banking and financial services, either directly or through subsidiary and associated banks, trust companies and other financial institutions.

The Bank has three major business lines: Domestic Banking, International Banking and Scotia Capital. Each of these three business lines is discussed below and additional information on each of the Bank’s business lines is available in the 2006 Management’s Discussion and Analysis found on page 42 of the Annual Report.

### ***Domestic Banking***

The Bank’s Domestic Banking business line provides a full range of banking and investment services to retail and small business banking, commercial and wealth management customers across Canada. Retail Banking provides a full range of financial products and services to nearly 7 million customers through a multi-channel domestic delivery network that includes 972 branches; 2,742 automated banking machines (“ABMs”); telephone, wireless and internet banking; three call centres, 100 wealth management branches, four dealer finance centres; and six commercial and business banking centres. Retail and Small Business Banking supplies mortgages, loans, credit cards, investments, insurance and day-to-day banking products to individuals and small businesses. Wealth Management provides a full range of products and services including: retail brokerage (discretionary, non-discretionary and self-directed); investment management advice; mutual funds and savings

products; and financial planning and private client services for affluent clients. Commercial Banking delivers a full product suite to medium and large businesses.

### ***International Banking***

The Bank's International Banking business line operates in more than 40 countries and includes operations in the following geographic regions: the Caribbean and Central America, Mexico, Latin America, and Asia. International Banking includes the Bank's retail and commercial banking operations outside of Canada. Including the Bank's subsidiaries and affiliates, more than 27,100 employees worldwide provide a full range of services to over 4.7 million customers. In the Caribbean and Central America, the Bank operates in 25 countries with 372 branches and offices and a network of 844 ABMs and employs over 11,200 staff. In Mexico, Grupo Financiero Scotiabank Inverlat, S.A. de C.V. is the sixth-largest financial group in the Mexican banking system, serving more than 1.4 million customers through 494 branches and offices, and has a network of 1,122 ABMs, nearly 7,400 employees and a significant portion of the rapidly expanding mortgage and automotive financing markets. In Latin America, the Bank's holdings include Scotiabank Sud Americano, S.A. in Chile, Scotiabank Peru S.A.A. and an affiliate in Venezuela. In Chile, the Bank operates 53 branches and offices and provides personal, commercial and corporate banking services. The Bank expanded its operations in Peru in 2006, which resulted in 77.57% ownership of the third-largest bank in the country, with 140 branches and other operations. In the Asia Pacific region, the Bank operates in nine countries with 24 branches and offices. Current activities are focused on commercial banking and trade finance, along with some wholesale banking.

### ***Scotia Capital***

Scotia Capital provides full service wholesale banking to corporate, government and institutional clients across the NAFTA region as well as other selected niche markets globally. Scotia Capital has 18 offices and more than 300 relationship managers who are organized primarily around industry specialties. Scotia Capital is organized into two main businesses. Global Corporate and Investment Banking is organized geographically with four groups: Canadian Corporate and Investment Banking; United States Corporate; Europe Corporate; and Mexico Wholesale. In Canada, Scotia Capital provides wholesale banking services. In Mexico, Scotia Capital offers a full suite of wholesale products, as well as cash management, trade finance and correspondent banking to our Mexico-based clients. The United States and European units provide corporate lending products as well as select non-lending products. Global Capital Markets represents the Bank's trading businesses and operates in Canada, the United States, Mexico, Western Europe and Asia. Global Capital Markets specializes in fixed income, derivatives, foreign exchange, and equity sales, trading and research, and through ScotiaMocatta, precious metals.

## **RISK FACTORS**

Investing in the Notes is subject to certain risks. Before reaching a decision to purchase Notes, a person should carefully consider a variety of risk factors including, but not limited to, the following:

### **Risks Related to the Fund**

#### ***Business Risk***

Hedge funds are inherently speculative investments. While the Fund Manager believes that the Fund's investment policies will be successful over the long term, there can be no guarantee against losses and there can be no assurance that the Fund's investment approach will be successful or that its investment objectives will be attained. The Fund could realize substantial losses, rather than gains, from some or all of its investments.

#### ***Lack of Operating History***

The Fund was established by a Trust Indenture, as amended, governed by the laws of the Province of Ontario on January 1, 2002. Accordingly, the Fund does not have a significant operating history, and any other Underlying Fund may also have no significant operating history.

### *Net Asset Value*

The net asset value of the Fund and the net asset value of the Units will fluctuate with changes in the market value of the Fund's investment. Such change in market value may occur as a result of various factors, including material changes in the intrinsic value of an issuer whose securities are held by an Underlying Fund. In addition, the calculation of the net asset value of the Fund may be based on estimated values or out-of-date values provided by the Underlying Funds. No adjustment will be made to the net asset value of an Underlying Fund or the Fund if those estimated values are subsequently determined to differ from the final values eventually obtained for an Underlying Fund.

### *Potential Lack of Diversification*

The Fund does not, and any Underlying Fund may not, have any specific limits on holdings in securities of issuers in any one country, region or industry. Unlike many mutual funds which are required by applicable securities laws to diversify portfolio holdings so that no more than a fixed percentage of their assets are invested in any industry or group of industries, the Fund has not adopted, and any Underlying Fund may not adopt, fixed guidelines for diversification. Although the Fund's portfolio will generally be diversified, this may not be the case at all times if the Fund Manager deems it advantageous for the Fund to be less diversified. Accordingly, the investment portfolio of the Fund may be subject to more rapid change in value than would be the case if there were a requirement to maintain a wide diversification among companies, industries, regions, types of securities and other asset classes.

### *Margin Trading; Short Sales*

The Fund, and any Underlying Fund, may engage in short sales, hedging, option trading, leverage and other strategies from time to time. A short sale will result in a gain if the price of the securities sold short declines between the date of the short sale and the date on which securities are purchased to replace those borrowed. A short sale will result in a loss if the price of the securities sold short increases. Any gain is decreased, and any loss is increased, by the amount of any payment, dividend or interest that may be required to be paid with respect to the borrowed securities, offset (wholly or partly) by short interest credits. In a generally rising market, short positions may be more likely to result in losses because securities sold short may be more likely to increase in value. A short sale involves a finite opportunity for appreciation, but a theoretically unlimited risk of loss. Hedging strategies in general are usually intended to limit or reduce investment risk, but they can also be expected to limit or reduce the potential for profit.

Trading on margin and other leveraging strategies can increase the profit potential of a securities portfolio, but concomitantly increase the risk of loss. Any of such strategies that the Fund or any Underlying Fund employs should be expected to increase transaction costs, interest expense and other costs and expenses. In addition, margin trading requires the pledge of securities as collateral, and margin calls can result in the Fund or any Underlying Fund being required to pledge additional collateral or to liquidate securities holdings, which can result in the necessity for selling portfolio securities at substantial losses that would not otherwise be realized. No assurance can be given that short sales, hedging, leverage and other techniques and strategies will not result in material losses for the Fund or any Underlying Fund.

### *Use of Options*

The Fund, and any other Underlying Fund, may, subject to certain restrictions, purchase and write exchange-traded put and call options on debt and equity securities and indices (both narrow-and-broad-based), and national securities exchange-traded put and call options on currencies. A put option on securities or currencies gives the purchaser of the option, upon payment of a premium, the right to deliver a specified amount of the securities or currencies to the writer of the option on or before a fixed date at a predetermined price. A put option on a securities index gives the purchaser of the option, upon payment of a premium, the right to a cash payment from the writer of the option if the index drops below a predetermined level on or before a fixed date. A call option on securities or currencies gives the purchaser of the option, upon payment of a premium, the right to call upon the writer to deliver a specified amount of the securities or currencies on or before a fixed date at a predetermined price. A call option on a securities index gives the purchaser of the option, upon payment of

a premium, the right to a cash payment from the writer of the option if the index rises above a predetermined level on or before a fixed date.

The ability of the Fund or any Underlying Fund to close out a position as a purchaser or seller of a listed put or call option is dependent, in part, upon the liquidity of the option market.

Call options may be purchased for speculative purposes or to provide exposure to increases in the market (e.g., with respect to temporary cash positions) or to hedge against an increase in the price of securities or other investments that the Fund or any Underlying Fund intends to purchase. Similarly, put options may be purchased for speculative purposes or to hedge against a decrease in the market generally or in the price of securities or other investments. Buying options may reduce the Fund's or an Underlying Fund's returns, but by no more than the amount of the premiums paid for the options.

A "put" gives a holder the right, in return for the premium paid, to require the writer of the put to purchase from the holder a security at a specified price. A "call" gives a holder the right, in return for the premium paid, to require the writer of the call to sell a security to the holder at a specified price. An option on a securities index (such as a stock index) gives the holder the right, in return for the premium paid, to require the writer to pay cash equal to the difference between the closing price of the index and the exercise price of the option, expressed in dollars, times a specified multiplier.

Put and call options are derivative securities traded on exchanges, including the American Stock Exchange, Chicago Board Options Exchange, Philadelphia Stock Exchange, Pacific Stock Exchange and New York Stock Exchange. Additionally, the Fund or any Underlying Fund may purchase dealer options that are not traded on a securities exchange and options which trade on foreign exchanges.

The Funds or any Underlying Fund may also write (sell) listed covered options. Call Options written give the holder the right to buy the underlying securities at a stated exercise price; put options give the holder the right to sell the underlying security. A call option is covered if the owner owns the security underlying the call or has an absolute and immediate right to acquire that security without additional cash consideration upon conversion or exchange of securities currently held. A put option is covered if the owner maintains cash or cash equivalents equal to the exercise price in a segregated amount. If a written option expires unexercised, a gain is realized equal to the premium received at the time the option was written. If a purchased option expires unexercised, a capital loss is realized equal to the premium paid.

Prior to the earlier of exercise or expiration, an option written may be closed out by an offsetting purchase or sale of an option. The Fund or any Underlying Fund will realize a gain from a closing purchase transaction if the cost of the closing transaction is less than the premium received from writing the option; if it is more, the Fund or any Underlying Fund will realize a capital loss. If the premium received from a closing sale transaction is more than the premium paid to purchase the option, the Fund or any Underlying Fund will realize a gain; if it is less, the Fund or any Underlying Fund will realize a loss.

The Fund or any Underlying Fund may also employ certain combinations of put and call options. A "straddle" involves the purchase of a put and call option on the same security with the same exercise prices and expiration dates. A "strangle" involves the purchase of a put option and a call option on the same security with the same expiration dates but different exercise prices. A "spread" involves the sale of an option and the purchase of the same type of option (put or call) on the same security with the same or different expiration dates and different exercise prices. The Fund or any other Underlying Fund may, at the same time it employs certain combination of options, also have a position in the underlying security, and a holding of segregated collateral as part of its "coverage" of short options. Thus, the Fund's or any Underlying Fund's entire position related to a particular security or index may be complex.

Options on futures contracts and physical commodities are similar to options on stocks, except that the option on a commodity or futures contract gives the holder the right, in exchange for a premium representing the market value of the option, to either buy or sell the underlying futures contract or physical commodity during a certain period of time for a fixed price. Unless the price of the futures contract or the commodity underlying the option changes and it becomes profitable to exercise or offset the option before it expires, the Fund or any other Underlying Fund may lose the entire amount of the premium. Conversely, if the Fund or Underlying Fund sells an option (to either sell or buy a futures contract or commodity), the Fund or any other

Underlying Fund will be credited with the premium but will have to deposit margin with a commodities broker due to the contingent liability to deliver or accept the futures contract or commodity (less any premium received).

Purchasing and writing put and call options are highly specialized activities and entail greater than ordinary market risks.

#### ***Forward Contracts***

The Fund, and any Underlying Fund, may engage in forward contracts for hedging purposes and to participate in foreign markets. A forward contract is an obligation to purchase or sell an underlying asset, including currency and stocks, for an agreed price at a future date. The use of forward contracts as a hedging strategy may not be effective and may result in losses greater than if hedging had not been used. There may be an imperfect historical correlation between changes in the market value of the investment being hedged and the hedging derivative. Hedging against a decline in the value of the currency or stock or bond market does not eliminate fluctuations in the prices of portfolio securities or prevent losses if the price of such securities decline. It may also preclude an opportunity for gain if the value of the hedged currency or stock or bond market should rise, because the derivative would incur an offsetting loss. Moreover, there is no assurance that a market will exist to purchase the forward contract when the Fund or any Underlying Fund wants to close out its position. If the Fund or any Underlying Fund is unable to close out a position, it will be unable to realize its profits or limit its losses until such time as the forward contract terminates. Forward contracts traded in foreign markets may offer less liquidity and greater credit risks than derivatives traded in North American markets, because North American markets are generally larger and more active.

#### ***Foreign Exchange Exposure***

Since it is expected that some of the Underlying Investments will not be denominated in Canadian currency, the Fund will, on an on-going basis, use best efforts to hedge the currency exposure to the fluctuation of the Underlying Investments currency compared to the Canadian dollar by using over the counter foreign exchange forward contracts and foreign exchange spot transactions. The performance of the Fund may be impacted by the cost of foreign exchange hedges, and will not benefit from the appreciation of those currencies compared to the Canadian dollar as a result of the foreign exchange hedges.

#### ***Portfolio Turnover***

The operation of the Fund or any Underlying Fund will likely result in a high annual portfolio turnover rate. The Fund has not placed, and any Underlying Fund may not place, any limit on the rate of portfolio turnover and portfolio securities may be sold without regard to the time they have been held when, in the opinion of the Manager, investment considerations warrant such action. A high rate of portfolio turnover involves correspondingly greater expenses than a lower rate (e.g., greater transaction costs such as brokerage fees) and may result in different tax consequences.

#### ***Arbitrage***

Arbitrage, a strategy that may be employed by the Underlying Funds, has unique risk factors. Merger arbitrage focuses on companies involved in a merger or acquisition. The key risk in merger arbitrage are: (i) that the deal may not be consummated; (ii) the deal may be significantly delayed; and (iii) the deal is re-priced to the detriment of the vendor. Special situations arbitrage is a non-standard, unique arbitrage opportunity. The risks associated with a given special situation will generally be unique to that arbitrage.

#### ***Earnings Surprises***

There can be no assurance that the Underlying Investments will report earnings in the manner expected. The Fund, or any Underlying Fund, may hold stocks that disappoint earnings expectations and decline rapidly, and the Fund, or any Underlying Fund, may short stocks that exceed earnings expectations and rise rapidly, in both cases producing losses.

### ***Counterparty Risk***

The Fund, and any Underlying Fund, bears the risk of loss of the amount expected to be received under options, forward contracts or securities lending agreements in the event of the default or bankruptcy of a counterparty to such contracts or agreements.

### ***Use of a Prime Broker to Hold Assets***

Special risks exist where the assets of the Fund, or any Underlying Fund, are held by a prime broker rather than through a conventional custodial arrangement with a bank or trust company. Due to the use of leverage and the presence of short positions, some or all of the assets of the Fund, or the assets of any Underlying Fund, may be held in one or more margin accounts which may provide less segregation of customer assets than would be the case with a more conventional custody arrangement. In the event that the prime broker experiences severe financial difficulty, the assets of the Fund or the assets of any Underlying Fund could be frozen and inaccessible for withdrawal or subsequent trading for an extended period of time while the prime broker's business is liquidated, resulting in a potential loss the Fund or any Underlying Fund's investment due to adverse market movements while the positions cannot be traded. Furthermore, if the prime broker's pool of customer assets is determined to be insufficient to meet all claims, the Fund or any Underlying Fund could suffer a loss.

### ***Currency Fluctuations***

The Fund, and any Underlying Fund, may have significant exposure to different foreign currencies, of which the exposure may or may not be "hedged". Accordingly, significant fluctuations or events with respect to global currencies, markets or economies may result in significant losses to the Fund, or any Underlying Fund.

### ***Interest Rate Fluctuations***

In the case of interest rate sensitive Underlying Investments, the value of a security may change as the general level of interest fluctuates. When interest rates decline, the value of such securities can be expected to rise. Conversely, when interest rates rise, the value of such securities can be expected to decline.

### ***Low Rated or Unrated Debt Obligations***

A portion of the Fund's or any Underlying Fund's portfolio may consist of instruments that have a credit quality rated below investment grade by internationally recognized credit rating organizations or may be unrated. These securities involve significant risk exposure as there is uncertainty regarding the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations. Low rated and unrated debt instruments generally offer a higher current yield than that available from higher grade issuers, but typically involve greater risk.

### ***Managers***

There can be no assurance that all of the current personnel of each Manager will continue to be associated with the Manager for any length of time. Given that Managers of any Underlying Funds may be resident outside Canada and all or substantially all of their assets are located outside of Canada, unitholders, the Fund Manager, the Fund and any Underlying Funds may have difficulty in enforcing any legal rights they may have against the Managers. Certain Managers of any Underlying Funds are exempt from registration as an advisor within the Canadian regulatory authorities and the regulatory authorities of the jurisdiction where they are resident.

### ***Risks Relating to Markets***

The value of those securities in which the Fund or any Underlying Fund invest and that are traded on exchanges or over-the-counter and the risks associated therewith vary in response to events that affect such markets and that are beyond the control of the Fund or any Underlying Funds. Market disruptions such as those that occurred during October of 1987 and September of 2001 could result in substantial losses to the Fund or any Underlying Fund.

There is no guarantee that securities exchanges and markets can at all times provide continuously liquid markets in which the Fund or any Underlying Fund can close out its positions in those securities that are publicly traded, in particular because the Fund or any Underlying Fund may invest in securities that are thinly traded or traded infrequently. The Fund or any Underlying Fund could experience delays and may be unable to sell securities purchased through a broker or clearing member that has become insolvent. In that event, positions could also be closed out fully or partially with the Fund's or any Underlying Fund's consent.

#### ***Newly Established and Smaller Capitalization Companies***

A substantial portion of the Fund's or any Underlying Fund's assets may be invested at any time in the equity securities of smaller and less well established companies. The earnings and stock prices of such smaller companies tend to be more volatile and the markets for their stocks tend to be less liquid, with resulting higher risk of loss, when compared to investments in larger and more established companies.

#### ***Reliance on Fund Manager and Investment Advisor***

The Fund Manager may retain various advisors to manage the investment portfolio of the Fund, on a discretionary basis, subject to the supervision of the Fund Manager and may retain other advisors to manage the investment portfolio of any Underlying Fund. Each of these advisors has, or may have, substantial discretionary authority to identify, structure, execute, administer, monitor and liquidate investments of the applicable Underlying Fund consistent with the applicable investment objective, authority, strategy and restrictions and as the same may be altered by the Fund Manager from time to time. In exercising its authority, an advisor has no responsibility to consult with any unitholders or any other person. Substantially all other decisions with respect to the management of the Fund's affairs are made exclusively by the Fund Manager (although it may also delegate administrative responsibilities from time to time). Unitholders have no right or power to take part in the management of a Fund or any Underlying Fund.

#### ***Broad Authority of the Fund Manager***

The Trust Indentures and Management Agreement give the Fund Manager broad discretion over the conduct of the Fund's business, over the Underlying Funds in which the Fund invests and over the types of securities transactions in which the Fund or any Underlying Fund engages. The constating documents and material contracts of Underlying Funds may give similar broad discretion to the Managers or advisors of such Underlying Funds.

#### ***Conflicts of Interest***

Certain inherent conflicts of interest are likely to arise as a result of the Fund Manager, advisors and affiliated persons carrying on similar investment activities both for themselves and for clients other than the Fund. The Fund Manager and such other persons are or may be engaged in other business activities. The Fund Manager and such persons will not be required to refrain from any other activity or to disgorge any profits from any such activity, and will not be required to devote all of their time and efforts to the Fund and its affairs. Similar conflicts of interest may arise in the case of any Underlying Fund.

The Fund, any of the Underlying Funds, other investment funds in which the Fund Manager, any advisor and their affiliates may participate as an investor or serve as a manager and other investment management and consulting clients that the Fund Manager and such other persons or their affiliates may have from time to time may share administrative offices and utilize common services, facilities, investment research and management. The Fund Manager and such other persons may also determine from time to time that some investment opportunities are appropriate for certain investment management clients and not others, including the Fund or any Underlying Fund, due to differing objectives, time horizons, liquidity needs or availability, tax consequences and assessments of general market conditions and of individuals securities. It may also occasionally be necessary to allocate limited investment opportunities among the Fund and any Underlying Funds and others on a basis deemed appropriate by the Fund Manager or the respective advisors which may mean that the Manager, the respective advisors or other accounts managed by any of them achieve profits that the Fund or any Underlying Funds do not or avoid losses that the Fund or any Underlying Funds suffer.

The Fund Manager and the applicable advisors have complete discretion regarding the selection of those registered securities broker-dealers and other financial intermediaries with and through which the Fund and any Underlying Fund executes and clears its portfolio transactions, the commissions and fees payable to a broker and the prices at which the Fund or any Underlying Fund buys and sells its investments. It is expected that the Fund Manager and the applicable advisors will allocate portfolio transaction business generally on the basis of best available execution and net results for the Fund or any Underlying Fund, but they may also allocate the Fund's or any Underlying Fund's portfolio transactions based in part on the provision of or payment for other products or services (including but not limited to investment research) to the Fund, any Underlying Fund, the Fund Manager, such advisors or affiliated persons. Such products or services may not be used for the direct or exclusive benefit of the Fund or any Underlying Fund and may reduce the overhead and administrative expenses otherwise payable by the Fund Manager under the terms of the Management Agreements. These "soft dollar" or directed brokerage" arrangements could also give the Fund Manager and the applicable advisors an incentive to "churn" the Fund's or any Underlying Fund's account by trading more actively in order to produce more credits with the securities firms providing the soft dollar or directed brokerage benefits. The Fund Manager also expects to allocate portfolio transactions to broker-dealers who refer investors to the Fund or Underlying Fund and other investment funds and accounts managed by the Fund Manager, the applicable advisors or other affiliated persons. The Fund Manager or any of such persons may also determine in the future to establish or become affiliated with a securities broker-dealer and to execute transactions for the Fund or any Underlying Fund through such affiliated broker-dealer.

### *International Securities*

The Fund, and any Underlying Fund, may invest a portion of its assets in securities of issuers domiciled or operating in one or more foreign countries or in securities issued by international governments. Investing in these securities involves considerations and possible risks not typically involved in investing in securities of companies domiciled and operating in Canada, including instability of some international governments, the possibility of expropriation, limitations on the use or removal of funds or other assets, changes in governmental administration or economic or monetary policy (in Canada or abroad) or changed circumstances in dealings between nations. The application of international tax laws (for example, the imposition of withholding taxes on dividends, interest payments or capital gains) or confiscatory taxation may also affect investments in international securities. Higher expenses may result from investments in international securities than would be the case for investments in U.S. securities because of costs incurred in connection with conversions between various currencies and higher international brokerage commissions. International securities markets also may be less liquid, more volatile and less subject to governmental supervision than in Canada. Investments in international countries could be affected by other factors not present in Canada, including lack of uniform accounting, auditing and financial reporting standards and potential difficulties in enforcing contractual obligations.

### *Emerging Markets*

Many securities markets in developing and/or emerging markets have substantially less volume and are subject to less government supervision than in Canada and other developed country securities markets. Securities of many issuers in emerging markets may be less liquid and more volatile than securities of comparable Canadian and other developed country issuers. In addition, there is generally less governmental regulation of securities exchanges, securities dealers and listed and unlisted companies and less stringent reporting requirements in emerging markets than in Canada and other developed countries. Emerging markets may have slower clearance and settlement procedures, higher transaction costs and restrictions in investment in certain instruments, which may restrict or delay investments in such markets by the Fund or Underlying Funds. In addition, certain governments may require approval for, or otherwise restrict, the repatriation of investment income, capital or proceeds of sales of securities by foreign investors. War, governmental intervention, lack of capital, generally smaller size companies with less management depth and expertise or lack of availability of capital are also common risks in these markets.

### ***Illiquid Assets***

Although it is expected that the portfolio of the Fund, and any Underlying Fund, will be liquid, securities that were liquid at the time of purchase may become less so over time as a result of numerous factors. As a result, the Fund, and any Underlying Fund, may be required to liquidate all or a portion of its investment in a particular security at a time when it might not otherwise wish to effectuate such liquidation.

### ***Hedging***

Various hedging techniques may be used in an attempt to reduce certain risks, including but not limited to currency risks associated with investments denominated in foreign currencies. For example, hedging in options may reduce the risk of both short-selling and taking long positions in certain transactions. Recalculations and adjustments to specific position hedges will be performed as market conditions warrant. However, such position hedges entail risks of their own. For example, unanticipated changes in currency exchange rates may result in an overall poorer performance than if currency risks had not been hedged. If market conditions are analyzed incorrectly or a risk reduction strategy is employed that does not correlate well with the Fund's, or any Underlying Fund's, investments, the Fund's, or any Underlying Fund's, risk reduction techniques could result in a loss, regardless of whether the intent was to reduce risk or increase return.

### ***Securities Believed to be Undervalued or Incorrectly Valued***

Securities which an advisor believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame the advisor anticipates. As a result, the Fund or any Underlying Fund, may lose all or substantially all of its investments in any particular instance. In addition, there is no minimum credit standard that is a prerequisite to the Fund's, or any Underlying Fund's, investment in any instrument and some obligations and preferred stock in which the Fund, or any Underlying Fund invests may be less than investment grade.

### ***Lack of Insurance***

The assets of the Fund are not, and those of any Underlying Fund may not be, insured by any government or private insurer except to the extent portions may be deposited in bank accounts insured by a government agency such as the Canada Deposit Insurance Corporation or the Federal Deposit Insurance Corporation (United States) or with brokers insured by the Canadian Investor Protection Fund, or the Securities Investor Protection Corporation (United States) and such deposits and securities are subject to such insurance coverage (which, in any event, is limited in amount). Therefore, in the event of the insolvency of a depository or custodian, the Fund or any Underlying Fund may be unable to recover all of its funds or the value of its securities so deposited.

## **Risks Related to the Notes**

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

A prospective investor should decide to invest in the Notes only after carefully considering with his or her advisors as to whether the Notes are a suitable investment in light of his or her investment objectives and the information set out in this Information Statement. None of the Bank (in its capacity as issuer and Calculation Agent), Scotia Capital Inc. (as Selling Agent), the Fund Manager or their respective affiliates makes any recommendation as to whether the Notes are a suitable investment for any person.

The Notes have certain investment characteristics that differ from conventional fixed income investments. The Notes will not provide Investors with an income stream or return prior to the Maturity Date and may not provide any return in excess of the Principal Amount on maturity. The Notes do not provide a return in excess of the Principal Amount at the Maturity Date that is calculated or determined with reference to a fixed or floating rate of interest. Therefore, an investment in the Notes is only suitable for Investors prepared to assume risks with an investment whose return is tied to the performance of the Units. The Principal Amount is only repaid if the Notes are held to the Maturity Date. The Notes are not conventional indebtedness. The Notes do not have a

fixed yield and could produce no yield. Therefore, the Notes are not suitable investments for Investors who need or expect certainty of yield.

Investors should understand that the risk involved in this type of investment is greater than that normally associated with other types of investments. The capital appreciation, if any, of the Units may not be sufficient to generate any Variable Return on the Notes.

#### ***Comparison to Other Obligations***

The terms of the Notes differ from those of ordinary obligations or debt instruments, in that a return, if any, is payable on the Notes only at the Maturity Date and only to the extent that the Fund Account performance exceeds all applicable Program Fees over the term of the Notes and certain events including Extraordinary Events and Protection Events do not occur. There can be no assurance that the Variable Return will be greater than zero, or that more than the Principal Amount will ever be payable with respect to the Notes. 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.

#### ***No Guaranteed Return on Notes***

While an Investor is entitled to payment on the Maturity Date which cannot be less than the Principal Amount of the Note, the Notes do not bear a fixed rate of interest and there can be no assurance that the Notes will bear any return. Historical returns on the Units should not be considered as an indication of the future performance of the Notes. No assurance can be given, and none is intended to be given, that the Units will appreciate in the period during which the Notes are outstanding and that any return will be achieved on the Notes at the Maturity Date.

#### ***Pledging***

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

#### ***Uncertain Return Until the Maturity Date***

There is no assurance that the Fund will be able to achieve its investment objectives. It should be noted that past performance of the Fund is not necessarily indicative of future performance.

The Notes are generally not suitable for an investor who requires liquidity prior to the Maturity Date. An Investor should 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. An Investor should also consult his or her tax advisor as to the income tax consequences arising from a sale prior to the Maturity Date as compared to holding the Note until the Maturity Date.

#### ***Dependence on Management***

The Fund's success depends on the skill and acumen of the Fund Manager who provides investment advice and administers the Fund, and on the management of the Fund Manager. The employees of the Fund Manager do not devote all of their time to the business of the Fund. If these individuals should cease to participate in the Fund's business and if satisfactory replacements cannot be found, the Fund's ability to select attractive investments and manage its portfolio could be severely impaired. There can be no assurance that: (a) the Fund's investment objectives will be realized; (b) the Fund's investment strategies will prove successful; or (c) the Fund can avoid losses. Past performance of the Fund is not indicative of future returns. There can be no assurance that the Fund Manager's management of the Fund will result in generating a positive return for the Fund (and hence, indirectly, the Notes).

### *Historical Performance of the Fund is not an Indication of Future Performance*

Variable Return, if any, will be determined on the basis of the performance of the Units in the Fund Account. The historical performance of the Fund is not necessarily indicative of the future performance of the Units. The values of the Fund, the Underlying Funds and the Underlying Investments, and therefore the Units themselves, will be influenced by complex and interrelated political, economic, financial and other factors.

### *Valuation of the Fund*

In valuing the Units, the Calculation Agent will be dependent on information reported by the Fund and the Fund's determination as to the fair value of its assets, which generally will be unaudited. Readily available market prices or quotations normally may not be available for all interests in the Fund, and the Bank will not have access to information about the Fund's portfolio holdings that could be used to verify the fair value of the Units as reported by the Fund. The Bank assumes no obligation to verify any information reported or determination made by the Fund and will not unwind or modify any Asset Allocation Event resulting from the application of the Asset Allocation Calculation effected in respect of the Notes during the term thereof in reliance on such information or determination in the event any information reported or determination made by the Fund proves to be incorrect in any way except to the extent that the correction of such information or determination triggers a further Fund Allocation Event, Bond Allocation Event or Protection Event which occurs during the term of the Notes.

### *Liquidity Risk and Secondary Trading of Notes*

The Notes are designed for Investors with long-term investment horizons who are prepared to hold the Notes to the Maturity Date. The Notes are not designed as a short-term investment.

Variable Return, if any, per Note is only payable at maturity. An Investor cannot elect to receive Variable Return prior to the Maturity Date. The Notes will not be listed on any stock exchange. However, the Selling Agent intends to use reasonable efforts to initiate and maintain a monthly secondary market for the Notes on the last trading day in each month on which the TSX is open for business, but reserves the right not to do so in the future in its sole discretion, without providing prior notice to the Investors. These efforts will consist of posting a Bid Price through FundSERV for the Notes. **Accordingly, to the extent that a secondary market is available, Investors will be able to sell Notes only one day per month during the term of the Notes and the Bid Price at which Notes will be purchased may be different than the Bid Price in effect at the date the sale notice is given by the Investor.** The Selling Agent may, for any reason, elect not to purchase Notes from any particular Investor and may limit the number of Notes to be purchased from any particular Investor at any time. There is no assurance that any premium that may have been paid by an Investor having purchased Notes in the secondary market will be recouped. The price that the Selling Agent will pay to an Investor for a Note prior to the Maturity Date will be determined by the Selling Agent, acting in its sole discretion, and will be based on, among other things: (i) how much the value of the assets in the Portfolio have risen or fallen since the Issue Date; (ii) the fact that assets in the Portfolio will be reallocated from time to time between the Fund Account and the Bond Account during the term of the Notes; and (iii) a number of other interrelated factors including, without limitation, volatility of the value of the notional assets in the Portfolio, prevailing interest rates and the time remaining to the Maturity Date. The relationship among these factors is complex and may also be influenced by various political, economic and other factors that can affect the trading price of a Note. In particular, Investors should realize that the secondary market price for the Notes: (i) may not rise and fall with changes in the net asset value per Unit; and (ii) may be substantially affected by changes in current interest rates independent of performance of the notional assets in the Portfolio. Due to the method used to price the Variable Return, the expected value of the Variable Return may be substantially less than the value computed only with reference to the performance of the Fund Account. If an Investor sells Notes prior to maturity, the Investor may have to do so at a discount from the Principal Amount even if the performance of the Portfolio has been positive and, as a result, the Investor may suffer losses. An Investor who sells a Note prior to the Maturity Date may have to pay an Early Trading Charge of up to 5.95% of the Principal Amount.

### ***Price Risk***

If an Investor wishes to sell Notes to the Selling Agent, it must notify the Selling Agent not less than 12 Business Days prior to the Month End Valuation Date on which it wishes to sell, failing which the Investor's Notes will not be purchased by the Selling Agent. The Bid Price at which such Notes may be purchased on the Month End Valuation Date may be different than the Bid Price in effect at the time that the sale notice is given by the Investor. The difference between the Bid Price at which the Notes are purchased and the Bid Price in effect at the date the sale notice is given could be material, and the Investor bears that risk. In addition, if a Market Disruption Event is in effect on such Month End Valuation Date or if, for any other reason, the Selling Agent declines to purchase such Notes on that Month End Valuation Date, the Investor will not be able to sell Notes until the next following Month End Valuation Date, if at all. In the interim period, the Bid Price for the Notes may have changed, Allocation Events may or may not occur and the impact of such events on the price that an Investor may receive for its Notes from the Selling Agent could be material.

### ***Potential Conflicts of Interest between the Investor and The Bank of Nova Scotia***

The Bank is the issuer of the Notes. Scotia Capital will, as the Calculation Agent, calculate the amount, if any, of Variable Return paid to Investors at maturity. The Calculation Agent may also be required to exercise its judgment in relation to the Notes from time to time. For example, the Calculation Agent may have to determine whether a Market Disruption Event or an Extraordinary Event has occurred, and may, as a consequence thereof, have to make certain determinations. While the Calculation Agent is required to make all calculations and determinations in good faith and using commercially reasonable procedures in order to produce a commercially reasonable result, absent manifest error, all of the Calculation Agent's calculations and determinations will be final and binding on Investors, without any liability on the Calculation Agent's, the Selling Agent's or the Bank's part, and Investors will not be entitled to any compensation from the Bank, the Calculation Agent or the Selling Agent for any loss suffered as a result of any of the Calculation Agent's calculations and determinations. Since the Calculation Agent's calculations and determinations may affect the market value of the Notes, the Bank may have a conflict of interest if the Calculation Agent needs to make any such calculations and determinations.

Since the Bank and the Calculation Agent may be the same person, the Calculation Agent may have an economic interest adverse to those of Investors, including with respect to the Bank's hedging arrangements with respect to the Notes. The Bank and its affiliates may also deal in the securities of issuers represented in the Fund or any Underlying Fund and Units or other securities of the Fund or any Underlying Fund and derivative securities related thereto. In addition, the Bank and its affiliates may, where permitted, accept deposits from, make loans or otherwise extend credit to, and generally engage in any kind of commercial or investment banking or other business with the Fund, the Fund Manager and/or any issuer represented in the Fund or in any Underlying Fund or any other person or entity having obligations relating to such entities and may engage in proprietary trading in the Units, other securities of the Fund or any Underlying Fund or the securities of any issuer, from time to time, represented in the Fund or in any Underlying Fund or in options, futures or derivatives relating to such securities (including such trading as the Bank may deem appropriate, in its discretion, to hedge any risk in connection with the Notes) and may act with respect to such business in the same manner as it would if the Notes did not exist, regardless of whether any such action might trigger an Allocation Event or have an adverse effect on the value of the Units and, thus, the Variable Return payable in respect of the Notes. The Bank and its affiliates may, whether by virtue of the relationships described above or otherwise, from time to time be in possession of information in relation to the Fund or any issuer, from time to time, represented in the Fund or any Underlying Fund that may not be publicly available or known to Investors, and the Notes do not create an obligation on the part of the Bank or its affiliates to disclose to Investors such relationship or such information (whether or not confidential).

The Bank and its affiliates may, at any time and from time to time, hedge its exposure under the Notes. It may do so in a number of ways including, without limitation, by engaging in proprietary trading in the Units, other securities of the Fund or the securities in which the Fund may, from time to time, invest or in options, futures, derivatives or other instruments relating to the Units or such securities and such trading may affect the value of the Units and, consequently, the Variable Return, if any, payable in connection with the Notes.

### *Reallocation of the Portfolio*

If, pursuant to the Asset Allocation Calculation, assets are reallocated from the Fund Account to the Bond Account during the term of the Notes, such allocation will reduce the exposure of the Notes to the Units. The amounts to be allocated between the Fund Account and the Bond Account will be determined in accordance with the Asset Allocation Calculation. **Re-balancing of the Portfolio, if any, will take place only once in each calendar month, if at all, during the term of the Notes and not on a more frequent basis.**

### *Fees and Transaction Costs*

In order for the payment at the Maturity Date to exceed the Principal Amount, the return on the notional assets in the Portfolio at the Maturity Date will have to exceed the aggregate fees and expenses paid in respect of the Notes during the term of the Notes. In addition, certain fees and expenses (including performance fees) impact on the net asset value per Unit and will reduce the Fund Account Value and, as a result, Variable Return, if any, payable in respect of the Notes.

### *Regulatory Change*

Future regulatory changes in applicable jurisdictions could limited the ability of the Fund Manager to carry on its business and may have a material adverse effect on the Fund and the Notes.

### *Credit Risk*

Because the obligation to make payments to Investors is an obligation of the Bank, the likelihood that such Investors will receive the payments owing to them in connection with the Notes will be dependent upon the financial health and creditworthiness of the Bank.

### *No Deposit Insurance*

The Notes will not constitute deposits that are insured under the *Canada Deposit Insurance Corporation Act* or any other deposit insurance regime.

### *Protection Event*

If a Protection Event occurs on a Valuation Date then, for the remaining term of the Notes, the Notes will no longer have any exposure to the notional Units. Following the occurrence of a Protection Event, any Variable Return on the Notes calculated as of the date of such occurrence will be notionally invested in the Bond Account and the proceeds will be paid to the Investor at the Maturity Date.

### *Market Disruption Event*

If a Market Disruption Event occurs, the determination of whether a Bond Allocation Event, Fund Allocation Event or Protection Event has occurred, and any resulting notional sales, redemptions or purchases of Bonds or Units may be delayed. Fluctuations in the net asset value per Unit and in the market prices of a notional Bond may occur in the interim.

In the event that a Market Disruption Event occurs and continues for a period of eight consecutive Business Days, the Calculation Agent may, in its discretion, determine the net asset value per Unit for purposes of the Asset Allocation Calculation on such eighth Business Day or, alternatively, designate the occurrence of such event as an Extraordinary Event. In such circumstances, the Variable Return, if any, may be less than the Variable Return, if any, that would otherwise have been payable had the Market Disruption Event not occurred. See “Description of the Notes — Special Circumstances — Market Disruption Event” and “Description of the Notes — Special Circumstances — Extraordinary Event”.

A Market Disruption Event may also result in a delay in payment of the Variable Return, if any. If a Market Disruption Event occurs and is not resolved by the nearest Rebalancing Valuation Date that is at least 10 Business Days prior to the Maturity Date, payment of the Principal Amount will occur on the Maturity Date,

and payment of the Variable Return, if any, will occur as soon as practicable following resolution of the Market Disruption Event and, in any event, no later than 180 days after the Maturity Date.

#### ***Extraordinary Event***

If an Extraordinary Event occurs, the Notes may no longer have exposure to the Fund Account and may have exposure only to the Bond Account. Following the occurrence of an Extraordinary Event, the Notes will not participate in any return that may have been realized on the notional Units following an Extraordinary Event. If an Extraordinary Event occurs, the possibility of an Investor receiving any Variable Return may be significantly reduced. See “Description of the Notes — Special Circumstances — Extraordinary Event”.

#### ***No Independent Calculation***

As part of its responsibilities, the Calculation Agent, acting reasonably, will be solely responsible for computing the NAV per Note based on the calculations of the Portfolio Performance and applying the Asset Allocation Calculation. No independent calculation agent will be retained to make or confirm the determinations and calculations made by the Calculation Agent.

#### ***No Control over Management***

Since the Portfolio is notional only, Investors will have no ownership or other interest in the Units or Bonds comprising the Portfolio other than the right to be paid a return, if any, on the Notes based on the performance of the Portfolio. There will be no control over the management of the Fund. The performance of the Notes will depend in part on the ability of the Fund Manager, in addition to general economic and market factors.

#### ***No Ownership of Units or Bonds***

The Notes will not entitle an Investor to any direct or indirect ownership of or entitlement to Units, Bonds or assets notionally held in the Portfolio. As such, an Investor will not be entitled to the rights and benefits of a unitholder of the Fund, including any right to receive Distributions or to vote at or attend meetings of unitholders of the Fund.

Owning the Notes is different from owning Units. The Notes do not represent a direct substitute for an investment in the Fund. Investing in the Notes provides the opportunity to participate in the value of the Portfolio, while receiving at the Maturity Date repayment of the Principal Amount invested in each Note. As such, the Notes serve as a way of participating in the appreciation in the Units, if any, based on the Portfolio Performance, while assuring the ultimate return of the Principal Amount invested on the Maturity Date.

#### ***Economic and Regulatory Issues***

Changes in economic conditions, including, for example, interest rates, inflation rates, industry conditions, competition, technological developments, political and diplomatic events and trends, war, tax laws and innumerable other factors, can affect substantially and adversely the business and prospects of the Fund and the Underlying Funds. None of these conditions are within the control of the Bank.

The Notes are not subject to Canadian securities laws. Accordingly, Investors do not have the same rights of action with respect to the disclosure in this Information Statement that a prospectus would provide. No securities commission or similar authority has in any way passed upon the merits of the Notes or the Information Statement.

## DOCUMENTS INCORPORATED BY REFERENCE

**Information has been incorporated by reference in this Information Statement from documents filed by the Bank with securities commissions or similar authorities in Canada.** Copies of the documents incorporated by reference may be obtained on request without charge from the Executive Vice-President, General Counsel and Secretary, The Bank of Nova Scotia, Scotia Plaza, 44 King Street West, Toronto, Ontario M5H 1H1, telephone: (416) 866-3672.

The following documents are specifically incorporated by reference into, and form an integral part of, this Information Statement:

- (a) the Bank's Annual Information form dated December 19, 2006;
- (b) the Bank's consolidated financial statements as at and for the years ended October 31, 2006 and 2005 together with the auditors' report thereon, including management's discussion and analysis of financial conditions and results of operations as contained in the Bank's Annual Report for the year ended October 31, 2006;
- (c) the Bank's Management Proxy Circular accompanying its notice of meeting dated January 15, 2007; and
- (d) the Bank's consolidated financial statements as at and for the three month period ended January 31, 2007, including management's discussion and analysis of financial conditions and results of operation as contained in the Bank's First Quarter Report to Shareholders.

**Any documents of the type referred to in the preceding paragraph and any unaudited interim financial statements for three, six or nine months financial periods, any information circulars; any material change reports (excluding confidential material change reports), news release containing financial information concerning the Bank for period following October 31, 2006 and any business acquisition reports for acquisitions completed after October 31, 2006 filed by the Bank with a securities regulatory authority in Canada after the date of this Information Statement and prior to the completion or withdrawal of this Offering, are deemed to be incorporated by reference in this Information Statement.**

**Any statement contained in a document incorporated or deemed to be incorporated by reference herein or contemplated in this Information Statement shall be deemed to be modified or superseded for purposes of this Information Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any information set forth in the document that it modifies or supersedes. the making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Information Statement.**

## GLOSSARY

“**Act**” means *Income Tax Act* (Canada).

“**Allocation Event**” has the meaning ascribed thereto under “Summary — Asset Allocation Calculation”.

“**Arrow Hedge**” means Arrow Hedge Partners Inc.

“**Asset Allocation Calculation**” has the meaning ascribed thereto under “Summary — Asset Allocation Calculation”.

“**Bank**” means The Bank of Nova Scotia.

“**Bid Price**” has the meaning ascribed thereto under “Summary — Secondary Market”.

“**Bond**” or “**Bonds**” means notional 0.50% coupon bonds issued by the Bank maturing on the Maturity Date.

“**Bond Account**” means the book-entry account comprising part of the Portfolio that may notionally hold Bonds.

“**Bond Allocation Event**” has the meaning ascribed thereto under “Summary — Asset Allocation Calculation”.

“**Business Day**” means any day, other than a Saturday, a Sunday or any day in which the Bank is closed in Toronto, Ontario.

“**Calculation Agent**” means Scotia Capital or its delegate.

“**CDS**” means CDS Clearing and Depository Service Inc.

“**CRA**” means Canada Revenue Agency.

“**DBRS**” means Dominion Bond Rating Service Limited.

“**Distance**” has the meaning ascribed thereto under “Summary — Asset Allocation Calculation”.

“**Distance Threshold**” means a Distance Threshold set out in the table under “Summary — Asset Allocation Calculation”.

“**Distribution**” means all regular cash distributions, if any, paid by the Fund on Units.

“**Early Trading Charge**” has the meaning ascribed thereto under “Description of the Notes — Early Trading Charge”.

“**Exchange**” means any relevant exchange, market or quotation system.

“**Exchange Business Day**” means, in respect of the Fund, any day on which each Exchange for securities held by the Fund or an Underlying Fund or for futures, option contracts or future contracts in respect of those securities are scheduled to be open for trading during their respective regular trading sessions, notwithstanding any such Exchange closing prior to its normally scheduled closing time.

“**Extraordinary Event**” means any of the following events that occurs on or after the Issue Date and prior to the Maturity Date where the Calculation Agent, acting reasonably and in good faith, has determined, following consultation with the Fund Manager, to designate such event as an “Extraordinary Event”: (i) the winding-up, dissolution or liquidation of the Fund or other cessation of trading of any Units; (ii) the Fund Manager or any affiliate of the Fund Manager ceases to act as manager of the Fund, (iii) a material modification of the terms and conditions attached to any Units (including but not limited to a material modification of the constating documents of the Fund) or the occurrence of any event or change having a material adverse effect on any Units (including, but not limited to, the interruption, breakdown or suspension for a significant period of time of redemptions of any of the Units); (iv) the investment objectives of the Fund are modified or the investment strategies of the Fund are modified (except where such modification is of a formal, minor or technical nature), in either case, in a manner that the Calculation Agent, acting reasonably, considers material; (v) any relevant activities of or in relation to the Fund or its management are or become unlawful, illegal or otherwise prohibited in whole or in part as a result of compliance with any present or future law, regulation, judgment, order or directive of any governmental, administrative, legislative or judicial authority or power, or in the interpretation

thereof; (vi) a relevant authorisation or licence is revoked or is under review by a competent authority in respect of the Fund; (vii) any change in or in the official interpretation or administration of any laws or regulation relating to taxation that has or is likely to have a material adverse effect on any holder of any Units or in respect of any hedge established in connection with the Offering; (viii) the Bank is unable to effectively acquire, establish, reestablish, substitute, maintain, modify or unwind, any hedge transaction in connection with the Offering or to realize, recover or remit the proceeds of any such hedging transaction; (ix) an increase in the cost of acquiring, establishing, re-establishing, substituting, maintaining, modifying, unwinding or disposing of any hedging transaction entered into connection with the Offering or in the cost of realizing, recovering or remitting the proceeds of any such hedging transaction; (x) as a result of any adoption of, or any change in, any law, order, regulation, decree or notice, howsoever described, or issuance of any directive or promulgation of, or any change in the interpretation, whether formal or informal, by any court, tribunal, regulatory authority or similar administrative or judicial body of any law, order, regulation, decree or notice, howsoever described, after such date or as a result of any other event: (1) it would become unlawful for any holder of any Unit to hold, purchase or sell any Units; (2) the cost of investing in any Units would materially increase, other than ordinary course increases in the market value of Units; or (3) a holder of any Unit would be subject to a material loss as a result of holding any Units; or (xi) a Market Disruption Event occurs.

“**Floor**” has the meaning ascribed thereto under “Summary — Asset Allocation Calculation”.

“**Fund**” means the Arrow Multi-Strategy Fund.

“**Fund Account**” means the book-entry account comprising part of the Portfolio that may notionally hold Units and cash.

“**Fund Account Value**” or “**FAV**” has the meaning ascribed thereto under “Summary — Asset Allocation Calculation”.

“**Fund Allocation Event**” has the meaning ascribed thereto under “Summary — Asset Allocation Calculation”.

“**Fund Manager**” means Arrow Hedge Partners Inc.

“**Initial Investor**” has the meaning ascribed thereto under “Certain Canadian Federal Income Tax Considerations”.

“**Investor**” means a holder of Notes.

“**Issue Date**” has the meaning ascribed thereto under “Summary — Issue Date”.

“**Issue Price**” means \$100 per Note.

“**Managers**” means the selected group of investment managers or advisors with which the Fund directly or indirectly invests its assets.

“**Market Disruption Event**” means, in respect of Units of the Fund, any bona fide event, circumstance or cause (whether or not reasonably foreseeable) beyond the reasonable control of the Bank or any person that does not deal at arm’s length with the Bank which in the reasonable opinion of the Calculation Agent has or will have a material adverse effect on the ability of dealers generally to acquire, establish, re-establish, substitute, maintain, unwind or modify hedges of positions in respect of any Units or any securities underlying the Fund. A Market Disruption Event may include, without limitation, any of the following events: (i) any suspension of or limitation imposed on trading or redemptions in respect of any Units; (ii) any suspension or limitation imposed on trading on any Exchange: (a) relating to any securities held by the Fund or any Underlying Fund; or (b) in futures or options contracts or futures contracts related to any securities held by the Fund or any Underlying Fund; (ii) the closure (“Early Closure”) on any Exchange Business Day of the relevant Exchange(s) on which any securities held by the Fund or any Underlying Fund are traded prior to its Scheduled Closing Time unless such earlier closing time is announced by such Exchange(s) at least one hour prior to the earlier of: (a) the actual closing time for the regular trading session on such Exchange(s) on such Exchange Business Day; and (b) the submission deadline for orders to be entered into the Exchange system for execution at the close of trading on such Exchange Business Day; (iii) any event (other than an Early Closure) that disrupts or impairs (as determined by the Calculation Agent) the ability of market participants in general: (a) to effect transactions

in, or obtain market values for, any securities held by the Fund or any Underlying Fund; or (b) to effect transaction in, or obtain market values for, futures or options contracts relating to any securities held by the Fund or any Underlying Fund; (iv) the failure on any Exchange Business Day on which any securities held by the Fund or any Underlying Fund are traded to open for trading during its regular trading session; (v) except as otherwise agreed between a Fund investor and the Fund Manager and except as disclosed in the Fund's disclosure documents, the non-execution or partial-execution by the Fund of a subscription order or redemption order given by a holder of any Units of the Fund or a refusal to transfer Units to an eligible transferee save where such non-execution, partial execution or refusal is the result of circumstances beyond the control of the Fund; (vi) except as otherwise disclosed in the Fund's disclosure documents, any mandatory redemption or other reduction (actual or potential, as determined by the Calculation Agent in its sole discretion) in the number of Units held by any holder of such Units of the Fund for any reason beyond the control of such holder; (vii) any failure by the Fund Manager to calculate or publish the daily official net asset value per Unit of the Fund in a timely fashion; (viii) the Fund imposes in whole or in part any restriction, charge or fee in respect of a redemption or subscription of any securities of the Fund by any holder that would impact the performance of such securities (other than any restriction, charge or fee applicable to a holder of Units at the Issue Date); (ix) the enactment, publication, decree or other promulgation of any statute, regulation, rule or order of any court or other governmental authority which would make it unlawful or impracticable for the Bank or the Calculation Agent to perform its obligations under the Notes or for equity dealers generally to acquire, establish, re-establish, substitute, maintain, unwind or modify hedges of positions in respect of any securities held by the Fund or any Underlying Fund; (x) the taking of any action by any governmental, administrative legislative or judicial authority or power of Canada or any other country, or any political subdivision thereof, which has a material adverse effect on the financial markets of Canada or a country in which any applicable Exchange is located; or (xi) any outbreak or escalation of hostilities or other national or international calamity or crisis (including, without limitation, natural calamities) which has or would have a material adverse effect on the ability of the Bank or the Calculation Agent to perform its obligations under the Notes or of equity dealers generally to place, maintain or modify hedges of positions with respect to any Unit or any securities held by the Fund or any Underlying Fund or a material and adverse effect on the Canadian economy or the trading of securities generally on any relevant Exchange or Related Exchange.

**“Maturity Date”** means June 29, 2015.

**“Month End Valuation Date”** means the last Valuation Date in any calendar month during the term of the Notes.

**“Moody’s”** means Moody’s Investors Service, Inc.

**“NAV”** has the meaning ascribed thereto under “Summary — Asset Allocation Calculation”.

**“NAV<sub>FINAL</sub>”** has the meaning ascribed thereto under “Summary — Variable Return Calculation”.

**“Net Proceeds”** means \$96.00 per Note.

**“Notes”** means The Bank of Nova Scotia — Arrow Multi-Strategy™ Fund Deposit Notes, Series 1 offered by this Information Statement.

**“Offering”** means the offering of the Notes pursuant to this Information Statement.

**“Participants”** has the meaning ascribed thereto under “Summary — Book-Entry Only Registration”.

**“Portfolio”** has the meaning ascribed thereto under “Summary”.

**“Portfolio Performance”** has the meaning ascribed thereto under “Summary — Variable Return Calculation”.

**“Principal Amount”** means \$100 per Note.

**“Program Fee”** has the meaning ascribed thereto under “Summary — Fees and Expenses”.

**“Proposals”** has the meaning ascribed thereto under “Certain Canadian Federal Income Tax Considerations”.

**“Protection Event”** has the meaning ascribed thereto under “Summary — Asset Allocation Calculation”.

**“Rebalancing Valuation Date”** means the Valuation Date immediately preceding the 10<sup>th</sup> Business Day prior to any Month End Valuation Date.

**“Regulations”** has the meaning ascribed thereto under “Certain Canadian Federal Income Tax Considerations”.

**“S&P”** means Standard & Poor’s, a division of The McGraw-Hill Companies, Inc.

**“Scotia Capital”** means, collectively, Scotia Capital Inc. and any of its affiliates and, where the context requires, “Scotia Capital” also refers to the global corporate and investment banking and capital markets products and services provided by the Bank and its affiliates.

**“Selling Agent”** means Scotia Capital Inc.

**“Selling Agent Fees”** has the meaning ascribed thereto under “Summary — Selling Expenses”.

**“Tax Proposals”** has the meaning ascribed thereto under “Certain Canadian Federal Income Tax Considerations”.

**“TSX”** means the Toronto Stock Exchange.

**“Underlying Funds”** means funds that the Fund will invest in that employ a variety of strategies including, but not limited to, long and short equity, merger arbitrage, high yield securities, convertible bond arbitrage, global macro and equity market neutral, although other strategies may be utilized.

**“Underlying Investments”** means investments held by Underlying Funds.

**“Units”** means the Class “A” units of the Fund.

**“Valuation Date”** means the last trading day of each week and of each calendar month on which the TSX is open for business or such other days as the Fund Manager may determine during the term of the Notes.

**“Variable Return”** has the meaning ascribed thereto under “Summary — Variable Return Calculation”.



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