



VIA SEDAR

February 22, 2002

McMillan Binch

Attention: Margaret McNee, Walter C. Lehman

Dear Sirs/Mesdames:

**Re: Triax CaRTS III Trust (the "Trust")
MRRS Application under National Instrument 81-102 Mutual Funds ("NI 81-102")
SEDAR Project No. 378480, Application No. 848/01**

By letter dated August 7, 2001 (the "Variation Application"), you applied to the securities regulatory authority or regulator in each of the provinces of Canada, excluding Quebec (collectively, the "Decision Makers"), on behalf of Triax Investment Management Inc., as manager of the Trust, for a variation of an Exemption Letter (the "Existing Decision Document") dated April 25, 2001, which granted the Trust relief from certain provisions of NI 81-102.

Discretionary relief has been requested specifically to

- (i) enable the Trust to enter into new securities lending transactions notwithstanding that the aggregate market value of all securities loaned by (and not yet returned to) the Trust in securities lending transactions already entered into exceeds 50 percent of the total assets of the Trust, contrary to paragraph 2.12(1)12 of NI 81-102; and
- (ii) permit the non-cash collateral received from the Trust's securities lending transactions to be delivered to the Counterparty (defined in paragraph 6 below), rather than held by the Trust, to secure the Trust's obligations under the Forward Agreements (also defined in paragraph 6 below), contrary to subsection 2.12(3) of NI 81-102.

From our review of the Variation Application and other information subsequently communicated both verbally and in writing to staff, we understand the relevant facts and representations to be as follows:

1. The Trust was established under the laws of the Province of Ontario pursuant to a trust agreement dated April 25, 2001 entered into between Triax Investment Management Inc. ("Triax") as manager of the Trust and as trustee.

2. The Trust offered redeemable, transferable units of the Trust called Capital Repayment Target Securities (“CaRTS”) pursuant to a (final) prospectus dated April 25, 2001 (the “Prospectus”). CaRTS may be surrendered for redemption at any time at the option of each holder of CaRTS (“Holders”) but will only be redeemed on a monthly basis.
3. CaRTS are listed and posted for trading on The Toronto Stock Exchange (the “Exchange”).
4. The Trust will terminate on or about December 31, 2012 (the “Termination Date”), subject only to extension by Holders by extraordinary resolution.
5. The Trust’s investment objectives are:
 - (i) to provide Holders with a stable stream of quarterly distributions of at least \$0.5625 per CaRTS (\$2.25 per annum to yield 9.0% on the subscription price of \$25.00 per CaRTS);
 - (ii) to pay to Holders, on or about the Termination Date, an amount per CaRTS equal to the subscription price of \$25.00 (the “Original Investment Amount”); and
 - (iii) to pay to Holders on the Termination Date, in addition to the Original Investment Amount, an amount representing the approximate initial value per CaRTS of the Active Portfolio (described below).
6. In order to achieve the Trust’s objective of returning the Original Investment Amount to Holders on or about the Termination Date, the Trust has entered into forward purchase and sale agreements (the “Forward Agreements”) with each of TD Global Finance (“TDGF”) and Royal Bank of Canada (collectively, the “Counterparty”) pursuant to which the Counterparty has agreed to pay to the Trust the Original Investment Amount on the Termination Date in exchange for the Trust agreeing to deliver to the Counterparty equity securities which the Trust acquired with approximately 50% of the gross proceeds of the offering (the “Capital Portfolio”).
7. If dividends or distributions are paid to the Trust on the Capital Portfolio securities, the Forward Agreements may be amended and provide that replacement securities acceptable to the Counterparty may at the Trust’s option be substituted for the shares in respect of which the dividend or distribution has been declared to preserve the value of the forward transaction prior to the occurrence of such event. Subject to the provision of replacement securities involving any of the securities in the Capital Portfolio, the Capital Portfolio securities will not be changed during the life of the Trust.
8. The balance of the net proceeds of the offering remaining after the acquisition of the Capital Portfolio have been invested in a diversified portfolio consisting principally of equity securities issued primarily by leading U.S. and Canadian based companies with a market capitalization in excess of U.S.\$1 billion and listed on a major North American stock exchange or quoted on the Nasdaq National Market (the “Active Portfolio”).

9. To generate additional returns above the dividend income generated by the Active Portfolio, the Trust, from time to time, writes covered call options in respect of all or part of the equity securities of such portfolio. In addition, the Trust may, from time to time, hold a portion of its assets in Cash Equivalents (as defined in the Prospectus) which may be used to provide cover in respect of writing cash covered put options in respect of securities in its Active Portfolio.
10. In connection with the Forward Agreements, the Capital Portfolio securities or other acceptable collateral will be pledged to and may be held by the Counterparty as security for the obligations of the Trust. In order to facilitate securities lending by the Trust, the provisions of the Forward Agreements provide for the substitution of collateral pledged to the Counterparty.
11. The Trust has entered into a securities lending agreement with each of TD Securities Inc. (“TDSI”) and RBC Dominion Securities Inc. (collectively, the “Borrower”) pursuant to which the Trust loans Capital Portfolio securities to the Borrower (the “Securities Lending Agreements”). The Borrower is not the same entity or entities as the Counterparty.
12. Under the Securities Lending Agreements the Trust acquires collateral security either before or at the same time as it delivers the loaned securities to the Borrower under the Securities Lending Agreements which consists of cash in Canadian or U.S. dollars or Canadian or U.S. debt obligations (the “Non-Cash Collateral”) of or guaranteed by the Government of Canada or the Government of the United States and which have an aggregate value of not less than 105% of the market value of the loaned securities.
13. The Capital Portfolio securities were acquired by the Trust on or about May 10, 2001, the date of the closing of the initial public offering (the “Initial Purchase Date”) except for those Capital Portfolio securities which were acquired on or about June 8, 2001 (the date of the “greenshoe” closing of the offering).
14. All of the Capital Portfolio securities owned by the Trust were pledged to the Counterparty shortly after May 10, 2001, the date of closing (i.e. the date the Trust’s obligations to make the pledge arose) except for those which were delivered on or about June 8, 2001 (the date of the “greenshoe” closing of the offering). The Trust commenced securities lending activities on or about July 3, 2001.
15. In connection with the Capital Portfolio securities loaned under the Securities Lending Agreements, the Trust has received Non-Cash Collateral from the Borrower as described in paragraph 11 and, in turn, has pledged and delivered to the Counterparty this collateral as substitute collateral to secure the obligations of the Trust under the Forward Agreements, as discussed in paragraph 9.
16. Although the Trust does not “hold” the Non-Cash Collateral directly, the Trust retains the ability to retrieve the Non-Cash Collateral held by the Counterparty by providing any recalled loaned securities under the Securities Lending Agreement as collateral under the Forward Agreement. In addition, the Securities Lending Agreements provide that if an event of default

by the Borrower occurs, the Trust is entitled to sell all or a portion of the Non-Cash Collateral to satisfy all amounts owing to the Trust. The Trust is also entitled to terminate the Securities Lending Agreements at any time and recall the loaned securities within the normal and customary settlement period for securities lending transactions in the market in which the securities are lent.

17. The Trust is currently in compliance with NI 81-102 with respect to the pledge of the collateral acquired pursuant to the Securities Lending Agreements as a result of the relief from section 2.6(f) of NI 81-102 granted under the Existing Decision Document. However, since the amendments to NI 81-102 with respect to securities lending were published in final form on April 27, 2001 (the "Amendments"), this exemption will terminate on April 27, 2002.
18. The Securities Lending Agreements are an integral part of the structure of the offering. Part of the structuring focussed on how the Counterparty's risk could be hedged and the effect the manner of hedging would have on the Trust. To contribute to the liquidity of the secondary market for Capital Portfolio securities, the Capital Portfolio securities are loaned out into the market. The resulting increased liquidity makes it less likely that the Counterparty will be unable to hedge its risk under the Forward Agreement. The Counterparty, however, will not borrow Capital Portfolio securities from the Borrower. It was intended that the pledge to the Counterparty of Non-Cash Collateral acquired pursuant to the Securities Lending Agreements continue throughout the period that the securities lending arrangements and the Forward Agreement remain in place. The securities lending arrangements and the Forward Agreement are expected to be in place throughout the life of the Trust. Therefore, given the Amendments, upon the expiration of relief granted from section 2.6(f) of NI 81-102 under the Existing Decision Document, the Trust may well be in contravention of NI 81-102.
19. The aggregate market value of all securities loaned by the Trust in securities lending transactions and not yet returned to it did not, at the date the Trust entered into the Securities Lending Agreement, exceed 50 percent of the total assets of the Trust. Because the Capital Portfolio securities may be replaced and the replacement securities loaned over time, the Trust cannot be certain that the securities loaned will not exceed 50 percent of the Trust's assets at all times throughout the life of the Trust when securities loans are made.
20. Although the Existing Decision Document places no limits on the aggregate market value of securities which may currently be loaned, as noted above the relief from section 2.6(f) of NI 81-102 terminates on April 27, 2002 at which time the provisions of the Amendments apply and the Trust would be in contravention of NI 81-102.

Decision

This letter confirms that, based on the information provided in the Variation Application and the facts and representations above, and for the purposes described in the Variation Application, the Decision Makers hereby grant exemptions from the following regulatory requirements of NI 81-102:

- (A) paragraph 12 of subsection 2.12(1) - to enable the Trust to enter into new securities lending transactions notwithstanding that the aggregate market value of all securities loaned by, and not yet returned to, the Trust in securities lending transactions already entered into exceeds 50 percent of the total assets of the Trust;

Provided That

- i. the securities subject to loans by the Trust in securities lending transactions are limited to the Capital Portfolio securities,
 - ii. subject to the acquisition of new securities (the “Replacement Securities”) as replacement for any of the Capital Portfolio securities, the composition of the Capital Portfolio securities owned by the Trust is the same as at the time of the Initial Purchase Date, and
 - iii. the fact that the aggregate market value of the Capital Portfolio securities loaned by the Trust exceeds or may exceed 50 percent of the total assets of the Trust has resulted from
 - (a) an increase in the market value of the Capital Portfolio securities, or
 - (b) an increase in the market value of any Replacement Securities, or
 - (c) a decline in the market value of the Trust’s Active Portfolio securities and the Forward Agreement; and
- (B) subsection 2.12(3) - to permit the Non-Cash Collateral received by the Trust from the Borrower to be delivered to the Counterparty to secure the Trust’s obligations under the Forward Agreements.

Provided That

- i. the Trust has the ability, pursuant to the Forward Agreements or any other agreement under which the Trust would pledge to the Counterparty Non-Cash Collateral received from the Borrower, to recall such Non-Cash Collateral from the counterparty at any time and upon demand;
- ii. the Counterparty is not, and will at no time be, the borrower under any existing or future securities lending agreement entered into by the Trust; and
- iii. none of the Capital Portfolio securities loaned by the Trust have been, or will be, loaned by the Borrower to the Counterparty.

This letter hereby revokes and replaces the relief obtained from section 2.6(f) of NI 81-102 under the Existing Decision Document.

Yours truly,

“Paul A. Dempsey”
Paul A. Dempsey
Manager, Investment Funds
Capital Markets