

VIA SEDAR

June 19, 2002

Fraser Milner Casgrain LLP
1 First Canadian Place
100 King Street West
Toronto, Ontario
M5X 1B2

Attention: Kim Cadario

Dear Sirs/Mesdames:

**Re: Coastal Income Corp. (the "Company") - MRRS Application under
NI 81-102; SEDAR Project No. 442009; App. No. 390/02**

By letter dated May 7, 2002 you applied to the regulator or the securities regulatory authority (collectively, the "Decision Makers") in each of the provinces of Canada, except Quebec, on behalf of the Company, for exemptive relief pursuant to section 19.1 of NI 81-102 from certain provision of NI 81-102.

From our review of the Application and the preliminary prospectus dated April 30, 2001 of the Company under SEDAR Project No. 442009 (the "Preliminary Prospectus") together with your response letter dated May 29, 2002 to our comment letter dated May 24, 2002, we understand the relevant facts and representations to be as follows:

1. The Company was incorporated under the laws of Canada on April 23, 2002. The primary undertaking of the Company will be to invest in a portfolio of securities (the "Portfolio") principally consisting of listed preferred shares diversified by issuer, industry and payment type (the "Portfolio Shares"). The Portfolio Shares and any cash held by the Company from time to time will be the only material assets of the Company.
2. The Company has a board of directors (the "Board") consisting of three directors. One of such directors is a director and/or officer of Coastal Investments Inc. ("Coastal") or its affiliates, while the remaining two directors are independent of Coastal (the "Independent Directors").
3. All of the officers of the Company are directors and/or officers of Coastal.

4. The purpose of the Company is to provide a vehicle through which different investment objectives with respect to participation in the Portfolio Shares may be satisfied. This is to be accomplished through the issuance of Capital Shares and Senior Preferred Shares of the Company.
5. The Senior Preferred Shares will be offered to the public pursuant to a prospectus (the "Offering"). For this purpose, the Company has filed the Preliminary Prospectus with the securities regulatory authorities of each Province of Canada.
6. Concurrently with the Offering of Senior Preferred Shares, the Company will issue, on an exempt basis, one Capital Share for each Senior Preferred Share sold. The Capital Shares will have an approximate value per share at the time of issue equal to the value of the Portfolio Shares, less the proceeds of the Senior Preferred Share Offering, divided by the number of Capital Shares to be issued.
7. The Company will invest in Portfolio Shares which will be actively managed in order to generate fixed cumulative preferential dividends for the holders of the Senior Preferred Shares and to enable the holders of the Capital Shares to participate in any remaining dividends and any capital appreciation in the Portfolio Shares.
8. An application has been made to have the Senior Preferred Shares listed and traded on the Toronto Stock Exchange (the "TSX") for which a conditional listing approval has been granted by the TSX on May 23, 2002.
9. Coastal, a private investment holding company, is the promoter of the Company and is the general partner of The Coastal Fund LP ("Coastal Fund").
10. Pursuant to an administration agreement to be entered into between the Company and Coastal, the latter will be retained to administer the ongoing operations of the Company (other than investment management activities). Coastal will be paid an annual fee equal to 0.01% of the Net Asset Value of the Portfolio in connection with the services provided by it.
11. The net proceeds from the Offering of the Senior Preferred Shares (after deducting the Agents' fees and expenses of the issue) will be used by the Company, together with the proceeds from the exempt distribution of Capital Shares, to fund the purchase of Portfolio Shares to be held by the Company.
12. Pursuant to an agreement (the "Purchase Agreement") to be made between the Company and Coastal Fund, the Company will agree to purchase, on the closing of the Offering, and Coastal Fund will agree to sell the initial portfolio (the "Initial Portfolio") of Portfolio Shares described in the Preliminary Prospectus. The price to be paid by the Company to the Coastal Fund for the Portfolio Shares representing the Initial Portfolio will not be greater than the aggregate of the closing prices of such shares on the TSX on the business day prior to the date of the (final) prospectus (the "Prospectus") for the Offering and where any such shares have not traded on that

date, the average of the "bid" and "ask" prices for such shares on the TSX on such date. The acquisition of the Initial Portfolio and the terms thereof will be approved by the Independent Directors.

13. The Initial Portfolio will be purchased for cash, to be funded from the proceeds of the Senior Preferred Share Offering and the exempt distribution of Capital Shares. Entering into the Purchase Agreement in advance of the closing of the Offering will permit the Company and the Agents to fix the price of the Initial Portfolio at the time of the pricing of the Offering and provide certainty that the Company will be able to purchase sufficient Portfolio Shares at closing to complete the transaction.
14. The acquisition of the Initial Portfolio represents the business judgment of the Company's Board, uninfluenced by considerations other than the best interest of the Company. The composition of the Portfolio will vary, from time to time, based upon management's assessment of market conditions.
15. In its investment activities following the acquisition of the Initial Portfolio, the Company is subject to the following investment restrictions:
 - (a) any such investment activity must not cause a downgrade in the then current rating of the Senior Preferred Shares;
 - (b) any such investment activity must not result in the weighted average rating of the Portfolio, after giving effect to such investment activity, being less than the lesser of: (i) the weighted average rating of the Portfolio immediately prior to such investment activity; and (ii) the weighted average rating of Pfd-3 (low) (or equivalent);
 - (c) each of the Portfolio Shares acquired must be (i) a preferred share (or equivalent) that is current on all payments due to the holder thereof, (ii) rated by at least one major rating agency, (iii) listed for trading on a recognized exchange, and (iv) considered "Canadian content" for the purpose of the *Income Tax Act* (Canada);
 - (d) after giving effect to any such investment activity, the dividend coverage on the Senior Preferred Shares must be at least equal to the lesser of: (i) the dividend coverage immediately prior to such investment; and (ii) 1.25 times;
 - (e) after giving effect to any such investment activity, no more than 10% of the total assets of the Company will be invested in securities of a single issuer;
 - (f) after giving effect to any such investment activity, no more than 40% of the total assets of the Company will be invested in securities of issuers involved in the same industry (as determined by the Board of

the Company); and

- (g) after giving effect to any such investment activity, no less than 35% of the total assets of the Company will be invested in fixed rate preferred shares (or equivalent).
- 16. The Company will only buy and sell Portfolio Shares in the market through an investment dealer or broker.
- 17. It will be disclosed in the Prospectus that the Coastal Fund may buy or sell for its own account preferred shares that may be included in the Portfolio held by the Company through the facilities of a recognized stock exchange. If the Company is buying or selling preferred shares at the same time, the Coastal Fund may unknowingly be trading with the Company but such trades will be at market prices through the facilities of a recognized stock exchange.
- 18. Coastal, the Coastal Fund and the Company will comply with applicable securities legislation and in accordance with orders obtained from all applicable securities regulatory authorities.
- 19. The Company will require any investment dealer engaged by it to undertake any investment activities to take reasonable steps, such as soliciting bids from other market participants or such other steps as such investment dealer, in its discretion, considers appropriate after taking into account prevailing market conditions and other relevant factors, to enable the Company to obtain the best price reasonably available for the Portfolio Shares so long as the price obtained (net of all transaction costs, if any) by the Company indirectly from the Coastal Fund is at least as advantageous to the Company as the price which is available (net of all transaction costs, if any) through the facilities of the applicable stock exchange at the time of the trade.
- 20. Neither Coastal nor the Coastal Fund will receive any commissions from the Company in connection with any trade of Portfolio Shares and, in carrying out any such trade, Coastal and the Coastal Fund shall deal fairly, honestly and in good faith with the Company.
- 21. The Senior Preferred Shares may be surrendered for retraction at any time. For Senior Preferred Shares which are surrendered no later than the 15th day of any month, the retraction price (the "Retraction Price") will be determined on the 1st business day of the following month ("Valuation Date") and will be paid within 5 business days thereafter (the "Retraction Payment Date").
- 22. Where a holder surrenders Senior Preferred Shares for retraction, the holder will receive a Retraction Price per share equal to the lesser of:
 - (a) 95% of the net asset value ("NAV") per Unit (which is considered to consist of one Senior Preferred Share and one Capital Share) on the

applicable Valuation Date; and

(b) \$25.00 less 5% of the NAV per Unit on the applicable Valuation Date,

and, in either case, less \$1.00.

23. The record date for the payment of dividends or other distributions of the Company will be set in accordance with the applicable requirements of the TSX.
24. The Company intends to establish a revolving credit facility (the "Revolving Credit Facility") with a Canadian chartered bank (the "Lender") that is at arm's length with the Company and Coastal and its affiliates. The Revolving Credit Facility may be used by the Company to fund the payment of amounts due on retraction of Senior Preferred Shares or the dividends on the Senior Preferred Shares on a temporary basis. The Company expects to repay any amounts borrowed under the Revolving Credit Facility within twelve months of the date of such borrowing. To the extent that such credit facility is used, the Company may pledge Portfolio Shares as collateral for amounts borrowed thereunder.

Decision

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

1. Subsection 2.1(1) - to enable the Company to invest in preferred shares issued by Inco Limited ("Inco") up to 13% of the net assets of the Company at the time of the purchase of the Initial Portfolio (the "Transaction"), provided that the Company does not become an insider of Inco as a result of such investments.
2. Clause 2.6(a) - to enable the Company to obtain the Revolving Credit Facility referred to in paragraph 24 above and to provide a security interest over its assets in connection therewith provided that:
 - (i) the borrowing is a temporary measure only for the purpose of funding the quarterly dividends of the Company as disclosed in the Prospectus; and
 - (ii) the aggregate outstanding amount of the Company's borrowing pursuant to this exemption and pursuant to subclause 2.6(a)(i) of NI 81-102 does not exceed 5% of the net assets of the Company, taken at market value at the time of the borrowing.
3. Section 3.3 - to permit the Company to absorb the organizational cost and initial distribution costs of the Company;

4. Section 10.3 - to permit the Company to calculate the retraction price in the manner described (and on the applicable Valuation Date as defined) in the Preliminary Prospectus and Prospectus, following surrender of the Senior Preferred Shares for retraction;
5. Section 10.4 - to permit the Company to pay the Retraction Price of Senior Preferred Shares surrendered for retraction on the Retraction Payment Date, as defined in the Preliminary Prospectus and Prospectus;
6. Subsection 12.1(1) - to relieve the Company from the requirement to file the prescribed compliance report;
7. Section 13.1 - to permit the Company to calculate its NAV on the 1st business day of each month, provided that the Company's Prospectus discloses
 - (i) that the NAV calculation is available to shareholders of the Company upon request, and
 - (ii) a telephone number or website that such shareholders can access for this purpose; and
8. Section 14.1 - to relieve the Company from the requirements relating to the record date for the payment of dividends or other distributions of the Company, provided that it complies with the applicable requirements of the TSX.

Yours truly,

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