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**VIA SEDAR ONLY**

May 31, 2002

Stikeman Elliott  
5300 Commerce Court West  
199 Bay Street  
Toronto, Ontario M5L 1B9

**Attention: Roberta Carano**

Dear Mesdames/Sirs:

**Re: High Income Preferred Shares Corporation (the "Company")  
MRRS Exemptive Relief Application pursuant to section 19.1 of  
National Instrument 81-102 ("NI 81-102")  
Sedar Project No. 442541; Application No. 363/02**

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By letter dated May 1, 2002 (the "Application"), you applied on behalf of the Company to the local securities regulatory authority or regulator (collectively, the "**Decision Makers**") in each province of Canada other than the province of Québec, for exemptive relief from certain provisions of NI 81-102 pursuant to section 19.1 thereof.

From our review of the Application and the preliminary prospectus dated May 1, 2002, filed on behalf of the Company under SEDAR Project No. 442383 (the "**Preliminary Prospectus**"), we understand the relevant facts and representations to be as follows:

1. The Company is a mutual fund corporation incorporated under the laws of Canada on April 26, 2002. The Company's manager is Lawrence Asset Management Inc. (the "**Manager**"), and its investment advisor is Lawrence Decter Investment Counsel Inc.
2. The Company will make an offering to the public of Series 1 Shares, Series 2 Shares and Equity Shares pursuant to a prospectus in respect of which the Preliminary Prospectus has already been filed in all of the provinces of Canada (the "**Offering**").

3. The Series 1 Shares, the Series 2 Shares and Equity Shares will be offered to the public separately, but will be issued only on the basis that there will be approximately an equal number of Series 1 Shares, Series 2 Shares and Equity Shares outstanding.
4. The Manager or an affiliate thereof will purchase a minimum of 33% of the total number of Equity Shares issued pursuant to the Offering, in order to ensure that the funds available for investment in the Managed Portfolio (as defined in paragraph 23 below), after expenses of the Offering, will be approximately 1.8 times the gross proceeds from the Offering of Series 2 Shares (including any Series 2 Shares issued as a result of the exercise of the over-allotment option granted to the agents).
5. One Series 1 Share, one Series 2 Share and one Equity Share will collectively constitute one unit (a "**Unit**").
6. The Company has received conditional listing approval for the Series 1 Shares, Series 2 Shares and Equity Shares from the Toronto Stock Exchange (the "**TSX**").
7. The Company will pay the expenses incurred in connection with the Offering, which are estimated to be \$1,000,000 (the "**Offering Expenses**").
8. The business of the Company is principally to invest in securities of other issuers with a view to achieving the following investment objectives:
  - (a) with respect to the Series 1 Shares:
    - (i) to provide the holders thereof with fixed, preferential, cumulative monthly cash dividends in the amount of 1/12 of \$1.4625 per Series 1 Share or 5.85% of the original investment amount of \$25.00 per Series 1 Share (the "**Original Investment Amount per Series 1 Share**"), per annum, which shall rank equally with the dividends payable on the Series 2 Shares, and, to the extent possible, to pay such dividends as capital gains dividends, and
    - (ii) to pay such holders, on or about June 29, 2012 (the "**Termination Date**"), in priority to the holders of the Series 2 Shares and Equity Shares, \$25.00, for each Series 1 Share held on the Termination Date;
  - (b) with respect to the Series 2 Shares:
    - (i) to provide the holders thereof with fixed, preferential, cumulative monthly cash dividends in the amount of 1/12 of \$1.06575 per Series 2 Share or 7.25% of the original investment amount per Series 2 Share (the "**Original Investment Amount per Series 2 Share**"), per annum, which shall rank equally with the dividends payable on the Series 1 Shares, and, to the extent possible, to pay such dividends as capital gains dividends, and
    - (ii) to pay such holders, on or about the Termination Date, in priority to the holders of the Equity Shares but after returning the Original Investment

Amount per Series 1 Share to the holders thereof, \$14.70 for each Series 2 Share held on the Termination Date; and

- (c) with respect to the Equity Shares,
    - (i) to provide the holders thereof with annual cash dividends equal to the amount, if any, by which the value of the Managed Portfolio (as defined in paragraph 23 below), less the Company's Liabilities (defined below), as at June 30 in each year, commencing on June 30, 2003, exceeds 1.8 times the product of \$14.70 and the number of Series 2 Shares then outstanding and, to the extent possible, to pay such dividends as capital gains dividends, and
    - (ii) to pay such holders, on or about the Termination Date, after returning the Original Investment Amount per Series 1 Share and the Original Investment Amount per Series 2 Share and making provision for the Company's Liabilities, any remaining assets of the Company.
9. For these purposes, "**Company's Liabilities**" means, the liabilities of the Company, as computed for the purposes of calculating Net Asset Value, including all unpaid expenses of the Company, any accrued Management Fees (as defined below) (including Management Fees which have not been paid as a result of the failure of the value of the Managed Portfolio (as defined in paragraph 23 below) to meet the Coverage Ratio Threshold), but for greater certainty excluding the obligation of the Company to pay the Original Investment Amount per share on the Series 1 Shares and Series 2 Shares, and "**Coverage Ratio Threshold**" means, for all years ending up to and including June 30, 2010, 1.5 multiplied by the product of \$14.70 and the number of Series 2 Shares then outstanding, and for the years ending on June 30, 2011 and June 29, 2012, 1.3 multiplied by the product of \$14.70 and the number of Series 2 Shares then outstanding.
  10. The record date for payment of dividends by the Company will be set in accordance with the applicable requirements of the TSX.
  11. The Series 1 Shares, Series 2 Shares and Equity Shares may be surrendered at any time for redemption, but will be redeemed only on a monthly basis on the last business day of each month (the "**Redemption Date**"), commencing in July 2002. Series 1 Shares, Series 2 Shares or Equity Shares surrendered for redemption by a shareholder at least five business days prior to the Redemption Date will be redeemed on such Redemption Date and the holder will receive payment on or before the tenth business day following such Redemption Date (the "**Redemption Payment Date**"). If a holder of Series 1 Shares, Series 2 Shares or Equity Shares makes such surrender after 5:00 p.m. (Toronto time) on the fifth business day immediately preceding a Redemption Date, such shares will be redeemed on the Redemption Date in the following month and the holder will receive payment for the redeemed shares on the Redemption Payment Date in respect of such Redemption Date.
  12. The redemption price (the "**Redemption Price**") on a Redemption Date (except in the month of June), commencing in July 2002, will be an amount

- (i) per Series 1 Share equal to 95% of the least of: (A) \$25.00; (B) the Equivalent Canada Bond Value (as defined below) per Series 1 Share; and (C) the Net Asset Value per Unit (as defined below) determined as of the relevant redemption date after deducting the cost to the Company of the purchase for cancellation of one Series 2 Share and one Equity Share;
  - (ii) per Series 2 Share equal to 95% of the least of: (A) \$14.70; (B) the Equivalent Canada Bond Value per Series 2 Share; and (C) the Net Asset Value per Unit determined as of the relevant Redemption Date after deducting the cost to the Company of the purchase for cancellation of one Series 1 Share and one Equity Share; and
  - (iii) per Equity Share equal to 95% of the Net Asset Value per Unit determined as of the relevant Redemption Date after deducting the cost to the Company of the purchase for cancellation of one Series 1 Share and one Series 2 Share.
13. The Redemption Price on a Redemption Date in the month of June of each calendar year, commencing in June 2003, will be an amount
- (i) per Series 1 Share equal to the least of: (A) \$25.00; (B) the Equivalent Canada Bond Value per Series 1 Share; and (C) the Net Asset Value per Unit determined as of the relevant redemption date after deducting the cost to the Company of the purchase for cancellation of one Series 2 Share and one Equity Share;
  - (ii) per Series 2 Share equal to the least of: (A) \$14.70; (B) the Equivalent Canada Bond Value per Series 2 Share; and (C) the Net Asset Value per Unit determined as of the relevant Redemption Date after deducting the cost to the Company of the purchase for cancellation of one Series 1 Share and one Equity Share; and
  - (iii) per Equity Share equal to the Net Asset Value per Unit determined as of the relevant Redemption Date after deducting the cost to the Company of the purchase for cancellation of one Series 1 Share and one Series 2 Share.
14. For these purposes, “**Equivalent Canada Bond Value**” means, the price per share required to provide a yield to maturity ending on the Termination Date, equal to the yield on the reference Government of Canada Bond (being the non-callable Government of Canada bond issue maturing June 1, 2012) plus 32.5 basis points in respect of a Series 1 Share or plus 172.5 basis points in respect of a Series 2 Share, and “**Net Asset Value per Unit**” means, the net asset value of the Company divided by the total number of Units outstanding.
15. To provide the Company with the means to return the Original Investment Amount per Series 1 Share, the Company will within 30 days of the closing of the Offering, enter into a forward purchase and sale agreement (the “**Series 1 Forward Agreement**”) with Canadian Imperial Bank of Commerce or an affiliate thereof whose obligations are guaranteed by such bank (the “**Counterparty**”), for settlement on the Termination Date

pursuant to which the Counterparty will agree to pay to the Company, on the Termination Date, \$25.00 for each Series 1 Share outstanding on the Termination Date in exchange for the Company agreeing to deliver to the Counterparty a portfolio of equity securities (the “**Series 1 Repayment Portfolio**”) that will be purchased by the Company with approximately 32% of the gross proceeds of the Offering, as disclosed in the Company’s final prospectus (the “**Prospectus**”).

16. In certain circumstances, such as if dividends or distributions are paid to the Company on the Series 1 Repayment Portfolio securities, the Series 1 Forward Agreement may be amended to provide that replacement securities (the “**Replacement Securities**”) acceptable to the Counterparty be substituted for the securities 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. The Company may take similar steps to address the amendments to the Series 1 Forward Agreement which might otherwise be required if the Company receives consideration as a consequence of a merger transaction involving any of the securities in the Series 1 Repayment Portfolio. Securities in the Series 1 Repayment Portfolio may also be replaced by other securities acceptable to the Counterparty and the Series 1 Forward Agreement amended, if securities in the Series 1 Repayment Portfolio cease or may cease to be listed on a prescribed stock exchange or if such securities cease or may cease to be “Canadian securities” within the meaning of the *Income Tax Act* (Canada). The Company or the Counterparty may from time to time request that the securities in the Series 1 Repayment Portfolio be replaced and the Series 1 Forward Agreement amended accordingly.
17. As security for its obligations under the Series 1 Forward Agreement, the Company may either,
  - (i) pledge the securities comprising the Series 1 Repayment Portfolio to the Counterparty, or
  - (ii) grant a security interest to the Counterparty in any Securities Lending Agreement (defined below), and a security interest or right of set-off against the collateral received by the Company from any Borrower (defined below) under the Securities Lending Agreement, in the event that the Series 1 Repayment Portfolio securities are loaned to the Borrower.
18. The long term debt of the Counterparty, or of the guarantor of its obligations to the Company, will be rated at least “A” by Dominion Bond Rating Service Limited, or an equivalent rating from another “approved credit rating organization” as such term is defined in section 1.1 of NI 81-102.
19. The Company may loan Series 1 Repayment Portfolio securities that are not pledged to the Counterparty under the Series 1 Forward Agreement to one or more borrowers (a “**Borrower**”) pursuant to the terms of a securities lending agreement between the Company, or a securities lending agent on its behalf, and the Borrower (the “**Securities Lending Agreement**”).

20. Under the Securities Lending Agreement, the Company may acquire collateral in respect of securities lent to the Borrower, and the Company may grant a security interest to the Counterparty in any Securities Lending Agreement and in any collateral received by the Company from any Borrower under the Securities Lending Agreement, if the Series 1 Repayment Portfolio securities are lent. The Company will hold all, and will not invest or dispose of any non-cash collateral delivered to it as collateral under the Securities Lending Agreement.
21. The aggregate market value of all securities loaned by the Company under the securities lending transactions and not yet returned to it will not, at the date the Company enters into the Securities Lending Agreement, exceed 50 percent of the total assets of the Company. Because the Series 1 Repayment Portfolio securities may be replaced and the Replacement Securities loaned over time, the Company cannot be certain that the securities loaned will not exceed 50 percent of the Company's assets at all times throughout the life of the Company when securities loans are made.
22. The Series 1 Repayment Portfolio will not be actively managed and will be segregated from the Managed Portfolio (defined in paragraph 23 below).
23. To provide the Company with the means to meet its investment objectives with respect to the Series 2 Shares and the Equity Shares, the Company will invest the proceeds of the Offering, net of Offering Expenses and the amount used to acquire the Series 1 Repayment Portfolio, in a diversified portfolio (the "**Managed Portfolio**") consisting of shares of American companies that have a market capitalization of greater than U.S.\$2 billion or companies which form part of the Standard & Poor's 500 Composite Stock Price Index, and shares of Canadian public companies which form part of the S&P/TSX 60 Index. Up to 25% of the Managed Portfolio may be invested in units or similar equity securities of ongoing business income funds, pipeline/energy income funds, power generation income funds and real estate investment trusts. In addition, up to 15% of the Managed Portfolio may be invested in debt securities that are rated to be at least investment grade.
24. To generate additional returns above the net capital gains, dividends and interest income earned on the Managed Portfolio and to reduce risk, the Company will from time to time write covered call options in respect of all or part of the securities in the Managed Portfolio and may also write cash-covered put options.
25. Under the management agreement between the Company and the Manager, the Manager is entitled to a management fee calculated daily and payable monthly in arrears at an annual rate equal to 1.05% of the Company's Net Asset Value (the "**Management Fee**"), plus applicable taxes. In the event that the value of the Managed Portfolio less the Company's Liabilities (excluding accrued Management Fees) is less than the Coverage Ratio Threshold at the end of any month, the Management Fee to be paid in respect of that month shall be reduced to a minimum fee payable monthly at an annual rate equal to 0.60% of the Company's Net Asset Value.

## **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:

- (a) subclause 2.6(a)(ii) – to permit the Company to create a security interest over,
  - (i) the Series 1 Repayment Portfolio securities, or
  - (ii) the Securities Lending Agreement and the collateral received by the Company from any Borrower under the Securities Lending Agreement, in the event that the Series 1 Repayment Portfolio securities are loaned to the Borrower,

as security for the Company’s obligations under the Series 1 Forward Agreement or any replacement agreement, as disclosed in the Company’s Prospectus, in accordance with industry practice with respect to this type of transaction;
- (b) subclause 2.7(1)(a)(ii) – to permit the Company to enter into the Series 1 Forward Agreement and any replacement agreement, as disclosed in the Prospectus, that has a remaining term to maturity of more than 5 years, provided that the Company does not and will not enter into any other specified derivative transaction that does not satisfy the requirements of subsection 2.7(1);
- (c) subsection 2.7(4) – to exempt the Company from the prescribed exposure limit under its Series 1 Forward Agreement (and any replacement or assignment of that agreement), provided that the mark-to-market value of the exposure to the Counterparty under such Series 1 Forward Agreement (and any replacement or assignment of that agreement) shall not exceed, for a period of 60 days or more, 30 percent of the net assets of the Company;
- (d) paragraph 12 of subsection 2.12(1) – to enable the Company to enter into new securities lending transactions notwithstanding that the aggregate value of all securities (including securities acquired from the proceeds of the exercise of the over-allotment option) loaned by, and not yet returned to the Company in securities lending transactions already entered into exceeds 50 percent of the total assets of the Company, provided that,
  - (i) the securities subject to loans by the Company in the Securities Lending Agreement are limited to Series 1 Repayment Portfolio securities;
  - (ii) subject to the acquisition of Replacement Securities as replacement for any securities in the Series 1 Repayment Portfolio, the composition of the Series 1 Repayment Portfolio securities owned by the Company is the same as at the time such securities were initially purchased; and

- (iii) the fact that the aggregate market value of the Series 1 Repayment Portfolio securities loaned by the Company exceeds or may exceed 50 percent of the total assets of the Company has resulted from
  - (A) an increase in the market value of the Series 1 Repayment Portfolio securities,
  - (B) an increase in the market value of the Replacement Securities, or
  - (C) a decline in the market value of the Managed Portfolio securities and the Series 1 Forward Agreement.
- (e) section 3.3 – to permit the organizational costs and the Offering Expenses to be borne by the Company;
- (f) section 10.3 - to permit the Company to calculate the Redemption Price in the manner described in paragraphs 12 and 13 above on the applicable Redemption Date, following surrender of the Series 1 Shares, Series 2 Shares and/or Equity Shares for redemption;
- (g) subsection 10.4(1) – to permit the Company to make payment for the redeemed Series 1 Shares, Series 2 Shares and/or Equity Shares, as the case may be, on the Redemption Payment Date;
- (h) subsection 12.1(1) – to relieve the Company from the requirement to file the prescribed compliance report; and
- (i) section 14.1 – to relieve the Company from the requirement relating to the setting of 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,

“Paul A. Dempsey”  
Paul A. Dempsey  
Manager, Investment Funds  
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(416) 593-8091