Ontario Securities Commission | Commission des valeurs mobilières de l'Ontario

PO Box 55, Suite 800
20 Queen Street West
Toronto ON M5H 3S8

CP 55, Bureau 800
20 rue Queen ouest
Toronto ON M5H 3S8

VIA SEDAR

February 27, 2002

Stikeman Elliott

Attention: Roberta Carano

Dear Sirs/Mesdames:

Re: High Income Principal And Yield Securities Corporation (the "Company") (formerly, High Income Principal Assured Yield Securities Corporation)
MRRS Exemptive Relief Application pursuant to section 19.1 of National Instrument 81-102 Mutual Funds ("NI 81-102")
SEDAR Project No. 411244; Application No. 1366/01

By letter dated December 20, 2001 (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 of the preliminary prospectus dated December 20, 2001, filed on behalf of the Company under SEDAR Project No. 411240 (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 Ontario on December 7, 2001. 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 two classes of shares, the Preferred Shares and the 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 Preferred Shares and the Equity Shares will be offered to the public separately, but will be issued only on the basis that there will be an equal number of Preferred Shares and Equity Shares outstanding.

4. Simultaneously with the closing of the Offering, the Company will complete a private placement of Subordinate Shares to the Manager, the proceeds of which will be invested in the Managed Equity Portfolio (as defined in paragraph 12 below) so that the funds available for investment in the Managed Equity Portfolio, after expenses of the Offering, will be approximately 1.4 times the gross proceeds from the Offering of the Equity Shares (including

any Equity Shares issued as a result of the exercise of the over-allotment option granted to the agents).

5. One Preferred Share, one Equity Share and a fraction of a Subordinate Share equal to the number of Subordinate Shares outstanding at any time divided by the number of Equity Shares outstanding at such time will together constitute a unit (a "Unit").

6. The Preferred Shares and Equity Shares will be listed and traded on the Toronto Stock Exchange (the "TSE"), which has granted conditional listing approval on for the Preferred Shares and Equity Shares. The Subordinate Shares will not be listed or traded on the TSE.

7. The Company will pay the expenses incurred in connection with the Offering, which are estimated to be $600,000 (the "Offering Expenses").

8. The business of the Company is principally to invest its assets with a view to achieving the following investment objectives:

   (a) with respect to the Preferred Shares:

      (i) to provide holders of the Preferred Shares with fixed, preferential, cumulative monthly cash dividends in the amount of 1/12 of $1.375 per Preferred Share or 5.50% of the original investment amount of $25.00 per Preferred Share (the "Original Investment Amount per Preferred Share"), per annum, and, to the extent possible, to pay such dividends as capital gains dividends, and

      (ii) on or about July 31, 2008 (the "Termination Date"), to pay such holders in priority to the holders of the Equity Shares and Subordinate Shares, $25.00 for each Preferred Share held on the Termination Date;

   (b) with respect to the Equity Shares,

      (i) to provide the holders thereof

         (A) on a pro rata, per share basis with the holders of the Subordinate Shares, with regular monthly cash dividends targeted to be 1/12 of $1.70 per Equity Share or 8.50% of the original investment amount of $20.00 per Equity Share (the "Original Investment Amount per Equity Share"), per annum, and, to the extent possible, to pay such dividends as capital gains dividends, and

         (B) on a pro rata, per share basis with the holders of the Subordinate Shares, a special cash dividend on the last day of March in each fiscal year equal to the aggregate amount, if any, by which the net realized capital gains, dividends, interest income and option premiums (other than option premiums in respect of options outstanding at year-end) earned on the Managed Equity Portfolio (as defined in paragraph 12 below), net of expenses, taxes and loss carry-forwards, exceeds the amount of monthly dividends paid on the Preferred Shares, Equity Shares and Subordinate Shares during such fiscal year, less the Performance Distribution (as defined in paragraph 21 below), payable to the Manager on the Subordinate Shares, and, to the extent possible, to pay such special cash dividends as capital gains dividends;

(ii) on or about the Termination Date, to pay such holders in priority to the holders of the Subordinate Shares but after returning the Original Investment Amount per Preferred Shares to holders thereof, $20.00 for each Equity Share held on the Termination Date; and

(iii) on or about the Termination Date, to pay such holders, on a pro rata, per share basis with the holders of the Subordinate Shares, the assets of the Company remaining after making provision for the Company's liabilities, returning the Original Investment Amount per share to the holders of Preferred Shares, Equity Shares and Subordinate Shares and paying the Capital Appreciation Distribution (as defined in paragraph 23 below), if any, to the Manager on the Subordinate Shares.

(c) with respect to the Subordinate Shares,

(i) to provide the holders thereof

(A) on a pro rata, per share basis with the holders of the Equity Shares, with regular monthly cash dividends targeted to be 1/12 of $1.70 per Subordinate Share or 8.50% of the original investment amount of $20.00 per Subordinate Share (the "Original Investment Amount per Subordinate Share"), per annum, and, to the extent possible, to pay such dividends as capital gains dividends, and

(B) on a pro rata, per share basis with the holders of the Equity Shares, a special cash dividend on the last day of March in each fiscal year equal to the aggregate amount, if any, by which the net realized capital gains, dividends, interest income and option premiums (other than option premiums in respect of options outstanding at year-end) earned on the Managed Equity Portfolio (as defined in paragraph 12 below), net of expenses, taxes and loss carry-forwards, exceeds the amount of monthly dividends paid on the Preferred Shares, Equity Shares and Subordinate Shares during such fiscal year, less the Performance Distribution (as defined in paragraph 21 below) payable to the Manager on the Subordinate Shares, and, to the extent possible, to pay such special cash dividends as capital gains dividends;

(ii) on or about the Termination Date, to pay such holders, after returning the Original Investment Amount per share on the Preferred Shares and Equity Shares, $20,00 for each Subordinate Share held on the Termination Date; and

(iii) on or about the Termination Date, to pay such holders, on a pro rata, per share basis with the holders of the Equity Shares, the assets of the Company remaining after making provision for the Company's liabilities, returning the Original Investment Amount per share to the holders of Preferred Shares, Equity Shares and Subordinate Shares and paying the Capital Appreciation Distribution, if any, to the Manager on the Subordinate Shares.

9. To provide the Company with the means to return the Original Investment Amount on the Preferred Shares, the Company will within 30 days of the closing of the Offering, enter into a forward purchase and sale agreement (the "Preferred Repayment Forward Agreement") with Canadian Imperial Bank of Commerce or an affiliate thereof whose obligations are guaranteed by such bank (the "Counterparty"), pursuant to which the Counterparty will agree to pay to the Company on the Termination Date $25.00 for each Preferred Share outstanding on the Termination Date in exchange for the Company agreeing to deliver to the Counterparty on the Termination Date Canadian equity securities (the "Preferred Repayment Portfolio") agreed upon by the Company and the Counterparty that the Company will acquire with the use of a specified percentage of the gross proceeds of the Offering, as will be disclosed in the Company's final prospectus (the "Prospectus").

10. As security for its obligations under the Preferred Repayment Forward Agreement, the Company may either,

(i) pledge the Preferred Repayment Portfolio securities, or

(ii) grant a security interest in the Securities Lending Agreement (as defined in paragraph 14 below), and a security interest or right of set-off against the collateral received by the Company from any borrower under a securities lending agreement, in the event that the Preferred Repayment Portfolio securities are loaned to the borrower;

11. The long-term debt of the Counterparty or a guarantor of the Counterparty's 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.

12. To achieve the Company's dividend and capital appreciation objectives, the Company will invest the proceeds of the Offering and sale of Subordinate Shares to the Manager, net of the Offering Expenses and the amount used to acquire the Preferred Repayment Portfolio, in a diversified portfolio (the "Managed Equity Portfolio") consisting principally of common shares issued by companies which form part of the S&P/TSE 60 Index or the Standard & Poor's 500 Composite Stock Price Index.

13. The Preferred Repayment Portfolio will not be actively managed and will be segregated from the Managed Equity Portfolio.

14. The Company may loan Preferred Repayment Portfolio securities that are not pledged to the Counterparty as security under the Preferred Repayment Forward Agreement to one or more

borrowers 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").

15. To generate additional returns above the dividends and interest income earned on the Managed Equity Portfolio and to reduce risk, the Company will from time to time write covered call options in respect of all or part of the common shares in the Managed Equity Portfolio. The Company may also write cash covered put options or purchase call options with the effect of closing out existing call options written by the Company, and may also purchase put options in order to protect the Company from declines in the market prices of the securities in the Managed Equity Portfolio.

16. The record date for payment of dividends or other distributions made by the Company will be set in accordance with the applicable requirements of the TSE.

17. The Preferred Shares and Equity Shares may be surrendered at any time for redemption, but will only be redeemed on the last business day of a month (the "Redemption Date"). Preferred 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 Preferred 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.

18. The net asset value of the Company (the "Net Asset Value") will be calculated once each week, and on the last business day of each month.

19. On redemption, the redemption price of the Preferred Shares and Equity Shares (the "Redemption Price") will be calculated as follows:

    (i) for each Preferred Share, 96% of the lesser of: (A) $25.00; and (B) the Net Asset Value per Unit determined as of the relevant Redemption Date after deducting the cost to the Company of the purchase of an Equity Share in the market for cancellation, the Subordinate Share Net Asset Value and an amount representing the pro rata portion of any accrued Capital Appreciation Distribution; and

    (ii) for each Equity Share, 96% of the Net Asset Value per Unit determined as of the relevant Redemption Date after deducting the cost to the Company of the purchase of a Preferred Share in the market for cancellation, the Subordinate Share Net Asset Value and an amount representing the pro rata portion of any accrued Capital Appreciation Distribution.

20. Under the management agreement between the Company and the Manager, the Manager is entitled to a base management fee (the "Management Fee") payable monthly in arrears at an annual rate equal to 1.25% of the Company's Net Asset Value plus the amount of the service

fee payable to dealers, plus applicable taxes. In the event that dividends are not paid in full on the Preferred Shares and regular monthly dividends are not paid in full on the Equity Shares and Subordinate Shares in any month, the Management Fee will be reduced pro rata based on the dividend shortfall, subject to a minimum Management Fee payable monthly in arrears at an annual rate equal to 0.50% of Net Asset Value of the Company.

21. The Manager, as the sole holder of Subordinate Shares, is also entitled to a performance distribution (the "Performance Distribution") which will accrue weekly for the purposes of determining the Net Asset Value of the Company and be paid as a dividend on the Subordinate Shares on the last day of each fiscal year equal to 20% of the amount, if any, by which the net realized capital gains, dividends, interest income and option premiums (other than option premiums in respect of options outstanding at year-end) earned on the Managed Equity Portfolio, net of expenses, taxes and loss carry-forwards, exceeds the amount of dividends paid on the Preferred Shares, and the regular monthly dividends paid on the Equity Shares and Subordinate Shares during such fiscal year.

22. The Manager will not receive a Performance Distribution in any fiscal year unless there are excess funds available in the Managed Equity Portfolio after the payment of all monthly dividends on the Preferred Shares of 5.50% per annum of the Original Investment Amount, the payment of all monthly dividends of 8.50% per annum of the Original Investment Amount, on the Equity Shares and on the Subordinate Shares and the payment in full of any previous dividend shortfall on any such shares.

23. The Manager, as holder of Subordinate Shares, is also entitled to receive a capital appreciation distribution (the "Capital Appreciation Distribution") payable as a dividend on the Subordinate Shares held by the Manager equal to 25% of the assets of the Company remaining after returning the Original Investment Amount per share on the Preferred Shares, Equity Shares and Subordinate Shares. The Capital Appreciation Distribution will be paid on the Termination Date by the Company to the Manager as compensation for the risk assumed by the Manager in connection with the contribution of capital to the Company through the purchase and holding of the Subordinate Shares.

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 Preferred Repayment Portfolio securities, or

  (ii) the collateral received by the Company from any borrower under the Securities Lending Agreement, in the event that the Preferred Repayment Portfolio securities are loaned to the borrower, as security for the Company's obligations under the Preferred Repayment Forward Agreement or any replacement agreement, as disclosed in the 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 Preferred Repayment 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 Preferred Repayment 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 Preferred Repayment Forward Agreement (and any replacement or assignment of that agreement) shall not exceed, for a period of 60 days or more, 30 percent of net assets of the Company;

(d) section 3.3 - to permit the Offering Expenses to be borne by the Company;

(e) section 7.1 - to permit the Company to pay the Performance Distribution in accordance with an internal benchmark as set out in paragraph 21 above, provided that

(i) the Manager believes such internal benchmark to be an appropriate benchmark against which to measure the performance of the Company, and both the Manager's belief and the reasons therefor are disclosed in the Prospectus,

(ii) the dividend amount paid by the Company on the Subordinate Shares as a Performance Distribution to the Manager is included in the calculation of the Company's management expense ratio in accordance with Part 16 of NI 81-102,

(iii) the dividend amount paid by the Company on the Subordinate Shares as a Performance Distribution is presented as a separate line item in the Statement of Changes in Net Assets in the Company's financial statements as "Incentive Participation Dividends on Subordinate Shares (100% owned by the Manager)", along with adequate financial statements note disclosure, and

(iv) the financial statements note disclosure referred to in (iii) above includes:

A. a description of the Performance Distribution, how it is calculated in general terms, and how it is accounted for, and

B. the dividend amount paid as a Performance Distribution as a percentage of the average Net Asset Value of the Company for the financial year;

(f) section 10.3 - to permit the Company to calculate the Redemption Price in the manner described in paragraph 19 above and on the applicable Redemption Date, following surrender of the Preferred Shares and/or Equity Shares for redemption;

(g) section 10.4 - to permit the Company to make payment for the redeemed Preferred Shares and/or Equity Shares on the Redemption Payment Date;

(h) subsection 12.1(1) - to relieve the Company from the requirement to file the prescribed compliance report;

(i) clause 13.1(1)(b) - to permit the Company to calculate its Net Asset Value once each week and on the last business day of each month, provided that the Prospectus discloses,

- that the Net Asset Value calculation is available to the public upon request; and

- a toll-free telephone number or website that the public can access for this purpose; and

(j) 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 TSE.

Yours truly,

"Merilyn Dasil"

Merilyn Dasil
Senior Legal Counsel, Investment Funds
Capital Markets