

**High Income Preferred Shares Corporation**  
(Series 1 Shares, Series 2 Shares and Equity Shares)

**Annual Information Form**

**September 29, 2008**

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## **Name, Formation and History of the Company**

High Income Preferred Shares Corporation (the “Company”) is a mutual fund corporation with its head office located at 220 Bay Street, Suite 1500, Toronto, Ontario M5J 2W4. The Company was incorporated under the *Canada Business Corporations Act* by way of articles of incorporation (“Articles”) on April 26, 2002.

The Articles were amended on May 30, 2002 to authorize the issue of Series 1 Shares, Series 2 Shares, Equity Shares and Class A Shares and to set out their respective rights, privileges, restrictions and conditions. The Articles were amended on June 18, 2002 to authorize the issue of an unlimited number of Series 1 Shares, Series 2 Shares, Equity Shares and Class A Shares. The Articles were amended on August 27, 2002 to provide that for the purpose of meetings held for matters to be voted upon by the holders of Series 1 Shares, Series 2 Shares, Equity Shares and Class A Shares, the holders of the Series 1 Shares, Series 2 Shares, Equity Shares and Class A Shares shall vote together as one class to approve such matters by 66⅔% of the votes cast.

The Company commenced operations on June 20, 2002 when it completed an initial public offering of Series 1 Shares at \$25.00 per share, Series 2 Shares at \$14.70 per share, Equity Shares at \$3.54 per share (the “Offering”) and Class A Shares at \$1.00 per share. The Series 1 Shares and Series 2 Shares are listed on the Toronto Stock Exchange under the symbols HPF.PR.A and HPF.PR.B, respectively. The Equity Shares are owned by Lawrence Asset Management Inc. (the “Manager” and “Investment Manager” of the Company). All outstanding shares other than the Class A Shares will be redeemed by the Company on June 29, 2012 (“Termination Date”).

To enable the Company to meet the capital repayment objective of returning \$25.00 per Series 1 Shares at the Termination Date, the Company used a portion of the proceeds of the Offering to acquire a portfolio of securities (the “Series 1 Repayment Portfolio”) and entered into a forward purchase and sale agreement (“Series 1 Repayment Forward Agreement”) with CIBC World Markets Securities Ireland Limited (“CIBC Ireland”). Under the terms of the Series 1 Repayment Forward Agreement, CIBC Ireland will pay the original investment amount of \$25.00 per Series 1 Share outstanding at the Termination Date to the Company in consideration for the Series 1 Repayment Portfolio, which has been pledged to CIBC Ireland as security under the Series 1 Repayment Forward Agreement. The obligations of CIBC Ireland under the Series 1 Repayment Forward Agreement are unconditionally guaranteed by Canadian Imperial Bank of Commerce (“CIBC”).

The net proceeds of the Offering, after the cost of acquiring the Series 1 Repayment Portfolio, were invested in a diversified portfolio (the “Managed Portfolio”) consisting of shares of American companies that have a market capitalization of greater than US\$2 billion or companies which form part of the S&P 500 Index and shares of Canadian public companies which form part of the S&P/TSX 60 Index.

On July 1, 2004, Lawrence Asset Management Inc. replaced Lawrence Decter Investment Counsel Inc. as investment manager.

On November 16, 2005, the holders of Series 1, Series 2, Equity and Class A Shares approved a special resolution to amend the investment restrictions contained in the Company's articles to allow up to 50% of the Managed Portfolio to be invested in units or similar equity securities of income funds as the Investment Manager deems appropriate. Prior to the amendment of articles, such investments were capped at 25% of the Managed Portfolio.

## **Investment Restrictions**

Although the Company is considered a "mutual fund" under the securities legislation of certain provinces of Canada and National Instrument 81-102 ("NI 81-102"), it has obtained exemptive relief from certain of the policies and rules of the Canadian priorities regulations applicable to conventional mutual funds.

Any change to the fundamental investment objectives, the investment restrictions and any of the material investment strategies to be used to achieve the investment objectives requires the approval of the holders of the Series 1 Shares, Series 2 Shares, Equity Shares and Class A Shares by 66 $\frac{2}{3}$ % of the votes cast at a meeting called and held to consider such change.

The Company qualifies as a "mutual fund corporation" as defined in the Income Tax Act ("Tax Act"). The Company does not engage in any undertaking other than the investment of its funds in property for the purposes of the Tax Act. The Company has not deviated from the requirements to be a mutual fund corporation in the last year.

The Company's investment restrictions provide that the Company may not:

- (a) purchase equity securities of an issuer unless if the purchase relates to the Series 1 Repayment Portfolio, such securities constitute "Canadian securities" as defined in subsection 39(6) of the Tax Act;
- (b) purchase shares of an issuer unless after such purchase, no more than 10% of the net asset value of the Company is invested in the equity securities of the issuer;
- (c) acquire or continue to hold any security that is foreign property under Part XI of the Tax Act if the cost amount to the Company of all foreign property held by the Company would exceed 30% of the cost amount to the Company of all of its property (or such other amount as is specified under the Tax Act and the Regulations thereunder from time to time);
- (d) invest in the securities of any non-resident corporation or trust or other non-resident entity if the Company would be required to mark its investment in such securities to market in accordance with proposed subsection 94.2(4) of the Tax Act or to include any amounts in income pursuant to proposed section

94.1 of the Tax Act, as set forth in the proposed amendments to the Tax Act dealing with foreign investment entities released on August 2, 2001 (or amendments to such proposals, provisions as enacted into law or successor provisions thereto);

- (e) invest in excess of 50% of its assets (measured at the time of purchase) in units or similar equity securities of income funds;
- (f) invest in debt securities which at the time of purchase are not rated to be at least investment grade;
- (g) invest in debt securities (excluding Permitted Debt Securities (as such term is defined in the prospectus of the Company dated May 31, 2002 (the "Prospectus"))) which have a term to maturity that extends beyond the Termination Date;
- (h) invest in excess of 15% (measured at the time of purchase) of its assets in debt securities (excluding Permitted Debt Securities);
- (i) write a call option in respect of any security unless such security is actually held by the Company at the time the option is written or the Company has the right or obligation under a forward contract or other derivative instrument to acquire such security at the time or at all times that the option is exercisable;
- (j) dispose of a security included in the Managed Portfolio that is subject to a call option written by the Company unless that option has either been terminated or has expired;
- (k) write a put option in respect of any security unless the Company is permitted to invest in such security and, so long as the option is exercisable, the Company holds Permitted Debt Securities which qualify as cash cover under NI 81-102 in an amount sufficient to permit the acquisition of the securities underlying such options at their aggregate strike price;
- (l) enter into any arrangement (including the acquisition of securities for the Managed Portfolio and the writing of covered call options in respect thereof) where the main reason for entering into the arrangement is to enable the Company to receive a dividend on such securities in circumstances where, under the arrangement, someone other than the Company bears the risk of loss or enjoys the opportunity for gain or profit with respect to such securities in any material respect; and
- (m) purchase derivatives, including call options and put options, except as specifically permitted under NI 81-102 or as permitted by the Canadian Securities Administrators.

The Company has also adopted the standard investment restrictions and practices set forth in NI 81-102 to the extent such restrictions and practices are not inconsistent with the foregoing

(in which event the foregoing provisions shall prevail). A copy of such standard investment restrictions and practices will be provided by the Company to any person on request.

## **Description of Securities Issued by the Company**

The Company is authorized to issue an unlimited number of Series 1 Shares, Series 2 Shares, Equity Shares and Class A Shares.

The Company has received exemptive relief from certain requirements of NI 81-102 and differs from a conventional mutual fund in a number of respects, most notably:

- (a) while the Series 1 Shares, Series 2 Shares and Equity Shares may be surrendered at any time for redemption, the redemption price is payable monthly, whereas the securities of most conventional mutual funds are redeemable for a redemption price that is paid daily;
- (b) the Series 1 Shares, Series 2 Shares and Equity Shares trade in the market whereas the securities of most conventional mutual funds do not; and
- (c) unlike the securities of most conventional mutual funds, the Series 1 Shares, Series 2 Shares and Equity Shares are not offered on a continuous basis.

### **Priority**

#### *Series 1 Shares*

The Series 1 Shares rank equally with the Series 2 Shares and in priority to the Equity and Class A Shares with respect to the payment of dividends. The Series 1 Shares rank in priority to the Series 2 Shares, Equity Shares and Class A Shares with respect to the repayment of capital on the dissolution, liquidation or winding up of the Company.

#### *Series 2 Shares*

The Series 2 Shares rank equally with the Series 1 Shares and in priority to the Equity and Class A Shares with respect to the payment of dividends. The Series 2 Shares rank subordinate to the Series 1 Shares but in priority to the Equity Shares and Class A Shares with respect to the repayment of capital on the dissolution, liquidation or winding up of the Company.

#### *Equity Shares*

The Equity Shares rank subordinate to the Series 1 Shares and the Series 2 Shares and in priority to the Class A Shares with respect to the payment of dividends. The Equity Shares rank subordinate to the Series 1 Shares and Series 2 Shares but in priority to the Class A Shares with respect to the repayment of capital on the dissolution, liquidation or winding up of the Company.

### *Class A Shares*

The Class A Shares rank subordinate to the Series 1 Shares, Series 2 Shares and Equity Shares with respect to the payment of dividends and the repayment of capital on the dissolution, liquidation or winding up of the Company.

## **Dividends**

### *Series 1 Shares*

The Company will pay, as and when declared by the board of directors of the Company, a fixed, cumulative preferential monthly cash dividend 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, per annum, on the last day of each month of each year up to the Termination Date of June 29, 2012 which shall rank equally with the dividends payable on the Series 2 Shares.

### *Series 2 Shares*

The Company will pay, as and when declared by the board of directors of the Company, a fixed, cumulative preferential monthly cash dividend in the amount of 1/12 of \$1.06575 per Series 2 Share or 7.25% of the original investment amount of \$14.70 per Series 2 Share, per annum, on the last day of each month of each year up to the Termination Date of June 29, 2012 which shall rank equally with the dividends payable on the Series 1 Shares.

### *Equity Shares*

The Company will declare and pay to the holders of Equity Shares annual dividends equal to the amount, if any, by which the value of the Managed Portfolio, which includes Managed Portfolio investments, cash and cash equivalents and dividends and interest receivable less the Company's liabilities, excluding the obligation of the Company to pay the original investment amount per share on the Series 1 Shares and Series 2 Shares ("Liabilities"), as at June 30 in each year, exceeds 1.8 times the product of \$14.70 and the number of Series 2 Shares then outstanding. No dividends will be paid on the Equity Shares so long as any dividends on the Series 1 Shares and Series 2 Shares are in arrears.

## **Redemption of Series 1 Shares, Series 2 Shares and Equity Shares**

The Company has received an exemption from certain requirements of NI 81-102. While the Series 1 Shares, Series 2 Shares and Equity Shares may be surrendered at any time for redemption, the redemption price is payable monthly, whereas the securities of most conventional mutual funds are redeemable for a redemption price that is paid daily.

Series 1 Shares, Series 2 Shares and Equity Shares may be surrendered for redemption at any time but will be redeemed only on a monthly basis as of the last business day of each month (a "Redemption Date"). Only Series 1 Shares, Series 2 Shares and Equity Shares surrendered for redemption by a shareholder at least five business days prior to the Redemption Date will be redeemed in that month. For purposes of the calculating net asset value per unit, a unit ("Unit") consists of one Series 1 Share, one Series 2 Share and one Equity Share. On redemption, holders will be entitled to receive:

- (a) an amount per Series 1 Share equal to 95% of the lesser of: (i) \$25.00; (ii) the Equivalent Canada Bond Value and (iii) the net asset value per Unit

determined as of the last business day of the month in which the Redemption Notice is received after deducting the cost to the Company of the purchase for cancellation of one Series 2 Share and one Equity Share.

- (b) an amount per Series 2 Share equal to 95% of the lesser of: (i) \$14.70; (ii) the Equivalent Canada Bond Value; and (iii) the net asset value per Unit determined as of the last business day of the month in which the Redemption Notice is received after deducting the cost to the Company of the purchase for cancellation of one Series 1 Share and one Equity Share.
- (c) an amount per Equity Share equal to 95% of the net asset value per Unit determined as of the last business day of the month in which the Redemption Notice is received after deducting the cost to the Company of the purchase for cancellation of one Series 1 Share and one Series 2 Share.

In the event that any Series 1 Shares, Series 2 Shares or Equity Shares are tendered for redemption on a Redemption Date, the Company will purchase in the market for cancellation Series 1 Shares and/or Series 2 Shares, and will redeem Equity Shares at the greater of the net asset value per Equity Share and \$3.54, as applicable, in order that, to the extent practicable, the ratio of outstanding securities of each class remains constant.

### **Redemption Procedures**

An owner of Series 1 Shares or Series 2 Shares who desires to exercise redemption privileges may do so by causing a participating dealer (a "CDS Participant") to deliver to The Canadian Depository for Securities Limited ("CDS") at its office in the City of Toronto on behalf of the owner a notice of the owner's intention to redeem shares ("Redemption Notice"), no later than 5:00 p.m. (Toronto time) on the fifth business day prior to the relevant Redemption Date up to June 29, 2012. The Redemption Notice will be available from a CDS Participant or the registrar and transfer agent, Computershare Investor Services Inc. Any expense associated with the preparation and delivery of Redemption Notices will be for the account of the owner exercising the redemption privilege.

By causing a CDS Participant to deliver to CDS a Redemption Notice, an owner shall be deemed to have irrevocably surrendered his shares for redemption and appointed such CDS Participant to act as his exclusive settlement agent with respect to the exercise of the redemption privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise. Any Redemption Notice which CDS determines to be incomplete, not in proper form or not duly executed shall for all purposes be void and of no effect, and the redemption privilege to which it relates shall be considered for all purposes not to have been exercised thereby. A failure by a CDS participant to exercise redemption privileges or to give effect to the settlement thereof in accordance with the owner's instructions will not give rise to any obligations or liability on the part of the Company to the CDS Participant or the owner. The Company has the option to terminate registration of the Series 1 Shares, Series 2 Shares or Equity Shares through the book-entry only system, in which case certificates for Series 1 Shares, Series 2 Shares or Equity Shares,

as the case may be, in fully registered form would be issued to beneficial owners of such shares, or their nominees.

An owner who desires to redeem Series 1 Shares or Series 2 Shares should ensure that the CDS Participant is provided with the notice of intention to exercise such redemption privilege sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver the Redemption Notice to CDS by the required time. Failure to provide the Redemption Notice by the required time will result in the redemption of such Series 1 Shares or Series 2 Shares on the next Redemption Date.

The redemption price for Series 1 Shares, Series 2 Shares and Equity Shares is based on the net asset value of the respective shares determined on the last business day of the month in which the Redemption Notice is given.

The Company may suspend the redemption of Series 1 Shares, Series 2 Shares and Equity Shares or payment of redemption proceeds either (i) for the whole or any part of a period during which normal trading is suspended on a stock exchange, options exchange or futures exchange or other market within or outside Canada on which securities are listed and traded, or on which specified derivatives are traded, if those securities or specified derivatives represent more than 50% by value, or underlying market exposure, of the total assets of the Company without allowance for liabilities and if those securities or specified derivatives are not traded on any other exchange or market that represents a reasonably practical alternative (or as otherwise permitted under NI 81-102 without the permission of the Ontario Securities Commission); or (ii) with the permission of the Ontario Securities Commission, for any period not exceeding 120 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Company or which impair the ability to determine the value of the assets of the Company. The suspension may apply to all requests for redemption received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All shareholders making such requests shall be advised by the Company of the suspension and that the redemption will be effected at a price determined on the first Redemption Date following the termination of the suspension. All such shareholders shall have and shall be advised that they have the right to withdraw their requests for redemption. The suspension shall terminate in any event on the first day on which the condition giving rise to the suspension has ceased to exist provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Company, any declaration of suspension made by the Company shall be conclusive.

## **Termination**

### *Series 1 Shares*

Upon the Termination Date, the Company will redeem all of the Series 1 Shares outstanding for an amount equal to the original investment amount of \$25.00 per Series 1 Share. Such redemption proceeds will be paid to the holders of the Series 1 Shares in priority to the holders of the Series 2 Shares and Equity Shares.

The original investment amount of \$25.00 per Series 1 Share will be paid from amounts received pursuant to the Series 1 Repayment Forward Agreement and, to the extent required, from the proceeds of the liquidation of the Managed Portfolio, after paying any accrued but unpaid dividends on the Series 1 Shares and Series 2 Shares and paying or making provision for the Company's Liabilities.

#### *Series 2 Shares*

Upon the Termination Date, the Company will redeem all of the Series 2 Shares outstanding for an amount equal to the original investment amount of \$14.70 per Series 2 Share. Such redemption proceeds will be paid to the holders of the Series 2 Shares after the holders of the Series 1 Shares are paid their original investment amount of \$25.00 per Series 1 Share but prior to any payment being made to the holders of Equity Shares.

As a result of the prior ranking of the Series 1 Shares, the holders of Series 2 Shares will effectively not participate in the Series 1 Repayment Portfolio or the Series 1 Repayment Forward Agreement. Effectively, the original investment amount of \$14.70 per Series 2 Share will be paid from amounts received from the proceeds of the liquidation of the Managed Portfolio, after paying any accrued but unpaid dividends on the Series 1 Shares and Series 2 Shares, paying or making provision for the Company's Liabilities (excluding accrued Management Fees (as defined below)) and paying the holders of Series 1 Shares their original investment amount per Series 1 Share. Accrued Management Fees will only be paid after the holders of Series 1 Shares and Series 2 Shares are paid their original investment amount of \$25.00 per Series 1 Share and \$14.70 per Series 2 Share as well as any accrued but unpaid dividends on the Series 1 Shares and Series 2 Shares.

#### *Equity Shares*

Upon the Termination Date, the Company will redeem all of the Equity Shares outstanding and pay the holders of Equity Shares any assets remaining after paying or satisfying the Company's Liabilities and returning the original investment amount of \$25.00 per Series 1 Share and \$14.70 per Series 2 Share to the holders of Series 1 Shares and Series 2 Shares.

As a result of the prior ranking of the Series 1 Shares, the holders of Equity Shares effectively have no entitlement to participate in the Series 1 Repayment Portfolio or the Series 1 Repayment Forward Agreement. Effectively, the amounts, if any, paid to the holders of Equity Shares will be paid from amounts received from the proceeds of the liquidation of the Managed Portfolio, after first (i) paying any accrued but unpaid dividends on the Series 1 Shares and Series 2 Shares; (ii) paying or making provision for the Company's Liabilities; (iii) paying the holders of Series 1 Shares and Series 2 Shares their original investment amount of \$25.00 per Series 1 Share and \$14.70 per Series 2 Share; and (iv) paying any accrued Management Fees.

### **Acts Requiring Shareholder Approval**

Except as required by law or set out below, holders of Series 1 Shares, Series 2 Shares or Equity Shares will not be entitled to receive notice of, to attend or to vote, at any meeting of shareholders of the Company.

Pursuant to the Company's Articles, the following matters require the approval of the holders of Series 1 Shares, Series 2 Shares, Equity Shares and Class A Shares by 66 $\frac{2}{3}$ % of the votes cast at a meeting called and held for such purpose:

- (a) a change in the fundamental investment objectives and strategy of the Company;
- (b) a change in the investment restrictions of the Company;
- (c) any use of derivatives other than (i) as described in the Prospectus; (ii) the use of covered call or put options; (iii) as required to close out positions in permitted derivatives; or (iv) as permitted under NI 81-102;
- (d) a change in the Investment Manager or Manager of the Company, other than a change resulting in an affiliate of such person assuming such position;
- (e) a decrease in the frequency of calculating the net asset value or of redemption privileges;
- (f) the issuance of additional Series 1 Shares, Series 2 Shares or Equity Shares at less than the amount of the net asset value per Unit attributable to such shares;
- (g) termination of the Investment Management Agreement (as defined below under "The Portfolio Advisor"); and
- (h) an amendment, modification or variation in the provisions or rights attaching to the Series 1 Shares, Series 2 Shares, Equity Shares or Class A Shares.

The Manager and any of its affiliates shall not be entitled to vote any shares of the Company held by them, with respect to the matters referred to in paragraph (d) above or any increase in fees payable to the Manager or its affiliate which requires shareholder approval under NI 81-102.

In addition certain matters require shareholder approval under NI 81-102 by a simple majority including:

- (a) any change in the basis of calculating fees or other expenses that are charged to the Company which could result in an increase in charges to the Company, provided that, in respect of fees and expenses other than the Management Fee if the Company is at arm's length to the person or company charging the fee or expense that is being changed and shareholders receive written notice at least 60 days before the effective date of the change that is to be made to such fees and expenses that could result in an increase in charges to the Company, then approval of the holders of Series 1 Shares, Series 2 Shares, Equity Shares and Class A Shares is not required;
- (b) a change of the auditors of the Company; and

- (c) certain mergers of the Company.

Each Series 1 Share, Series 2 Share, Equity Share and Class A Share will have one vote at such a meeting and, subject to applicable law, will not vote separately as a class in respect of any vote taken (except where the holders of a specified class are entitled to vote separately as a class as provided in the *Canada Business Corporations Act*). Five per cent of the outstanding shares entitled to vote at a meeting represented in person or by proxy at the meeting will constitute a quorum at any meeting called by the Company. Fifteen per cent of the outstanding shares entitled to vote at a meeting represented in person or by proxy at the meeting will constitute a quorum at any meeting requested by holders of such class of shares. If no quorum is present at such meeting when called, the meeting, if called on the requisition of shareholders will be terminated, and otherwise will be adjourned for not less than 10 days and at the adjourned meeting the shareholders then present in person or represented by proxy will form the necessary quorum. The holders of not less than five per cent of the issued shares of the Company that carry the right to vote at a meeting sought to be held may requisition the board of directors to call a meeting of shareholders for the purposes set forth in the requisition.

Not less than six months nor more than 12 months prior to the Termination Date, the Manager may present a proposal to shareholders providing for a deferral of the final redemption of the Series 1 Shares, Series 2 Shares or Equity Shares, or all of them, to a date that is later than the Termination Date. Such proposal may include, without limitation, a proposal (i) to continue the Company beyond the Termination Date; or (ii) to exchange the Series 1 Shares, Series 2 Shares, or Equity Shares for securities of one or more mutual funds or closed-end investment funds on or after the Termination Date. Holders of each class of shares will be entitled to vote separately as a class on any such proposal, unless the proposal provides for the continuation of only a specific class or series, as the case may be, in which event only the holders of such specific class or series, as the case may be, will be entitled to vote on the proposal. In the event that a proposal to delay the final redemption beyond the Termination Date is approved, the redemption will be deferred until that later specified date. In the event such a proposal is approved, the Company will grant a right to shareholders entitled to vote thereon to require the Company to redeem all (but not less than all) of his or her Series 1 Shares, Series 2 Shares or Equity Shares on the Termination Date at a price per Series 1 Share, per Series 2 Share or per Equity Share equal to the amount such holder would have been entitled to on the Termination Date, in the absence of such proposal. Notwithstanding the foregoing, the directors of the Company may, by resolution, extend the Termination Date by not more than 60 days, in the aggregate. However, even if the final redemption of Series 1 Shares, Series 2 Shares or Equity Shares is extended beyond the Termination Date, the Series 1 Repayment Forward Agreement will still be settled on or about the Termination Date.

### **Calculation of Net Asset Value**

The net asset value of the Company will be calculated by State Street Trust Company Canada (the “Accounting Agent”) daily by subtracting the sum of the aggregate amount of the liabilities of the Company which includes all unpaid expenses of the Company and any

accrued Management Fees (as described below), including Management Fees which have not been paid as a result of the failure of the value of the Managed Portfolio to meet the Coverage Ratio Threshold (as described below), but for greater certainty excludes the obligation of the Company to pay the subscription price per share on the Series 1 Shares and Series 2 Shares), from the total assets of the Company (less \$1,000, representing the stated capital of the Class A Shares on the date hereof). The total assets of the Company will be valued as follows:

- (a) the value of any security which is listed or traded upon a stock exchange is determined by taking the latest available sale price at the time the net asset value is being calculated, or lacking such price, the simple average of the latest available offer price and the latest available bid price on the relevant date upon which the net asset value is calculated, all as reported by any means in common use, provided that if such stock exchange is not open for trading on that date, then on the last previous date on which such stock exchange was open for trading;
- (b) if a clearing corporation option or over-the-counter option is written by the Company, the option premium received by the Company will be reflected as a deferred credit which will be valued at an amount equal to the current market value of the clearing corporation option or over-the-counter option which would have the effect of closing the position; any difference resulting from revaluation shall be treated as an unrealized gain or loss on investment; the deferred credit shall be deducted in arriving at the net asset value;
- (c) the value of any cash on hand or on deposit, prepaid expenses, cash dividends received (or declared to holders of record on a date before the relevant date upon which the net asset value is calculated) and interest accrued and not yet received, is deemed to be the face amount thereof unless the Accounting Agent has determined that any such asset is not otherwise worth the face amount thereof, in which case the value thereof is deemed to be such value as the Accounting Agent determines to be the reasonable value thereof;
- (d) the value of a forward contract will be the gain or loss that would be realized if, on the trading date, the position in the forward contract were to be closed out, unless "daily limits" are in effect, in which case fair value will be based on the current market value of the underlying interest;
- (e) the value of any debt securities will be valued by taking the average of the bid and ask prices on the date upon which the net asset value is calculated at such times as the Accounting Agent deems appropriate. Short term investments, including notes and money market instruments, will be valued at cost plus accrued interest;
- (f) if the date upon which the net asset value is calculated is not a business day, then the Company's assets will be valued as if such date was the preceding business day;

- (g) the value of all assets of the Company quoted or valued in terms of foreign currency, the value of all funds on deposit and contractual obligations payable to the Company in foreign currency and the value of all liabilities and contractual obligations payable by the Company in foreign currency shall be determined using the rate of exchange current at, or as nearly as practicable to, the relevant date as of which the net asset value is computed, obtained from the best available sources to the Accounting Agent including, but not limited to, the Accounting Agent or any of its affiliates; and
- (h) if an investment cannot be valued under the foregoing rules or if the foregoing rules are at any time considered by the Accounting Agent to be inappropriate under the circumstances, then notwithstanding the foregoing rules, the Accounting Agent shall make such valuation as it considers fair and reasonable.

A Unit consists of one Series 1 Share, one Series 2 Share and one Equity Share. If the date upon which the net asset value is calculated is not a business day, then the Company's assets will be valued as if such date was the preceding business day. The net asset value per Unit on any day is the amount obtained by dividing the net asset value of the Company as of such date by the total number of Units on such date. The net asset value per Unit as of the most recent date upon which the net asset value of the Company is calculated will be provided by the Company to shareholders of the Company on request and will be available at any time to shareholders via the Company's website: [www.lawrenceasset.com](http://www.lawrenceasset.com). The net asset value per Series 1 Share is the lesser of \$25.00 and the net asset value per Unit. The net asset value per Series 2 Share is the lesser of \$14.70 and the net asset value per Unit less the net asset value per Series 1 Share. The net asset value per Equity Share is the amount equal to the net asset value per Unit less the net asset value per Series 1 Share and per Series 2 Share.

The redemption price of Series 1 Shares, Series 2 Shares or Equity Shares is based on the Company's net asset value per Unit determined on the last business day of the month in which the Redemption Notice is given.

## **Responsibility for Company Operations**

### **The Manager**

Lawrence Asset Management Inc. is the Manager of the Company. The address of the Manager is 220 Bay Street, Suite 1500, Toronto, ON M5J 2W4. The telephone number of the Manager is 416.362.4999 or 1.866.404.4999. The e-mail address of the Manager is [info@lawvest.com](mailto:info@lawvest.com). The website address of the Manager is [www.lawrenceasset.com](http://www.lawrenceasset.com).

Pursuant to a management agreement between the Company and the Manager dated May 31, 2002, the Manager has been retained as the manager of the Company and, as such, is responsible for providing or arranging for administrative services required by the Company including, without limitation, authorizing the payment of all fees and operating expenses incurred on behalf of the Company; preparing financial statements, income tax returns,

financial and accounting information as required by the Company; ensuring that shareholders of the Company are provided with financial statements (including semi-annual and annual financial statements) and other reports as are from time to time required by applicable law; ensuring that the Company complies with regulatory requirements and applicable stock exchange listing requirements; preparing the Company's reports to shareholders and the Canadian securities regulatory authorities; determining the amount of dividends to be paid by the Company; providing all investment advisory and portfolio management services or negotiating contractual arrangements with and retaining the services of an investment manager and retaining and negotiating contractual agreements with third-party providers of services, including advisors, registrars, transfer agents, auditors and printers.

The Management Agreement will continue in effect until the Termination Date, as such date may be amended from time to time, unless terminated. The Manager may resign upon 60 days notice to the Company or such lesser notice as the Company may accept provided that a successor to the Manager has been appointed. The appointment of a successor manager requires the approval of the shareholders of the Company unless it is an affiliate of the resigning manager, in which case no notice or approval of such shareholders is required. If the Manager commits certain events of bankruptcy or insolvency or is in material breach or default of its obligations under the Management Agreement and such breach or default has not been cured within 30 days after notice of same has been given to the Manager, or if the assets of the Manager become subject to seizure or expropriation by any public or governmental organization, the Company shall give notice thereof to shareholders and the shareholders may remove the Manager and appoint a successor manager. The Manager and its affiliates shall not be entitled to vote any shares of the Company then held at any meeting called to remove the Manager. Except as described above, the Manager cannot be terminated as manager of the Company.

The Manager is entitled to a management fee ("Management Fee") calculated daily and payable monthly in arrears at an annual rate equal to 1.05% of the Company's net asset value, 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. "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.

The payment of monthly Management Fees will resume, and accrued Management Fees will be paid in the month that the value of the Managed Portfolio, less the Company's Liabilities, equals or exceeds the Coverage Ratio Threshold, provided that accrued Management Fees will only be paid to the extent that after such payment, the value of the Managed Portfolio less the Company's Liabilities equals or exceeds the Coverage Ratio Threshold. Any accrued Management Fees will be paid by the Company on the Termination Date of June 29, 2012 but only after any accrued and unpaid dividends are paid on the Series 1 Shares and Series 2

Shares. The Management Fees will not be payable out of the proceeds of the Series 1 Repayment Forward Agreement.

The management services of the Manager under the Management Agreement are not exclusive and nothing in the Management Agreement prevents the Manager or any of its affiliates from providing similar management services to other investment funds and other clients (whether or not their investment objectives, strategies and policies are similar to those of the Company) or from engaging in other activities.

### **The Portfolio Adviser**

The Manager is also the portfolio adviser and provides the portfolio management services in connection with the Company (in such capacity, the "Investment Manager") pursuant to an investment management agreement between the Manager and Lawrence Decter Investment Counsel Inc. dated May 31, 2002 (the "Investment Management Agreement"). Lawrence Decter Investment Counsel Inc. has been replaced with the Investment Manager as investment manager of the Company.

Jack Lawrence, the Chairman, Chief Executive Officer and director of the Investment Manager, and Ravi Sood, the President, Chief Operating Officer and director of the Investment Manager make all investment decisions relating to the Company. Both Mr. Lawrence and Mr. Sood have been with the Investment Manager since its inception in 2000. Investment decisions are not subject to the oversight, approval or ratification of a committee.

The services to be provided by the Investment Manager pursuant to the Investment Management Agreement include making all investment decisions for the Company in accordance with the investment objectives, strategy and restrictions of the Company.

The Investment Management Agreement, unless terminated as described below, will continue until the Termination Date. The Manager may terminate the Investment Management Agreement if the Investment Manager has committed certain events of bankruptcy or insolvency, or is in material breach or material default of the provisions thereof and such breach or default has not been cured within 30 days after notice thereof has been given to the Investment Manager or if the assets of the Investment Manager become subject to seizure or confiscation by any public or governmental organization. The Investment Management Agreement will also be terminated upon any termination of the Management Agreement. In addition, the Manager may terminate the Investment Management Agreement on 30 days notice to the Investment Manager provided that the Manager or an affiliate of the Manager assumes the responsibilities of the Investment Manager.

The Investment Manager may terminate the Investment Management Agreement if the Manager is in material breach or material default of the provisions thereof and such breach or default has not been cured within 30 days of notice of same to the Manager and the Company or if the Manager has been declared bankrupt or becomes insolvent or if there is a material change in the fundamental investment objectives, strategy or restrictions of the Company. The Investment Management Agreement will terminate in the event the Investment Manager

has lost any registration, license or other authorization required to perform the services delegated to it. The Investment Manager may assign the Investment Management Agreement to an affiliate.

If the Investment Management Agreement is terminated, the Manager will promptly appoint a successor investment manager to carry out the activities of the Investment Manager until a meeting of shareholders of the Company is held to confirm such appointment, unless the successor investment manager is an affiliate of the Investment Manager, if the Investment Manager resigns.

The Investment Manager will be paid fees for its services under the Investment Management Agreement by the Manager and will be reimbursed for all reasonable costs and expenses incurred by it in performing its duties under the Investment Management Agreement. In addition, the Investment Manager and each of its directors, officers, employees, shareholders, representatives and agents will be indemnified and saved harmless by the Manager from and against all liabilities and expenses (including all legal fees, judgments and amounts paid in settlement), actually and reasonably incurred by the Investment Manager or any of its officers, directors, employees, shareholders, representatives or agents in the exercise of its duties as investment manager, unless those liabilities and expenses were incurred as a result of willful misconduct, bad faith, negligence or a breach by the investment Manager of the standard of care described above.

#### **Directors and Officers of the Manager and the Investment Manager**

The names and municipalities of residence of the directors and officers of the Manager and the Investment Manager and their principal occupations are as follows:

<b><u>Name and Municipality of Residence</u></b>	<b><u>Position with Manager/Investment Manager</u></b>	<b><u>Principal Occupation During Last Five Years</u></b>
JACK LAWRENCE Toronto, Ontario	Chairman, Chief Executive Officer and Director	Chairman and Chief Executive Officer, Lawrence & Company Inc. (an investment company)
GRANT MCCUTCHEON Toronto, Ontario	Vice President, Secretary and Director	Director, Lawrence & Company Inc. (an investment company)
K. MATTHEW HOANG Toronto, Ontario	Chief Financial Officer	Chief Financial Officer, Lawrence Asset Management Inc. since May 1, 2007; Chief Financial Officer, MediResource Inc. from December 2004 to April 2007, prior thereto Consultant
MARC ROBINSON Toronto, Ontario	Vice President	Vice President, Lawrence & Company Inc. (an investment company) since January 2005; Analyst at CIBC Mezzanine

<b><u>Name and Municipality of Residence</u></b>	<b><u>Position with Manager/Investment Manager</u></b>	<b><u>Principal Occupation During Last Five Years</u></b>
		Finance from December 2002 to August 2003; Analyst at Merrill Lynch Investment Banking from June 2000 to July 2002
RAVI SOOD Toronto, Ontario	President, Chief Operating Officer and Director	President and Chief Operating Officer, Lawrence & Company Inc. (an investment company)

### **Directors and Officers of the Company**

The following are the names, municipalities of residence, office and principal occupations of the directors and officers of the Company:

<b><u>Name and Municipality of Residence</u></b>	<b><u>Position with Company</u></b>	<b><u>Principal Occupation During Last Five Years</u></b>
JOEL BINDER Toronto, Ontario	Director	Partner, Stikeman Elliott LLP (law firm)
JOHN CROW Toronto, Ontario	Director	Corporate Director
JACK LAWRENCE Toronto, Ontario	Chairman and Director	Chairman & Chief Executive Officer, Lawrence & Company Inc. (an investment company)
GRANT MCCUTCHEON Toronto, Ontario	President, Chief Executive Officer and Secretary	Director, Lawrence & Company Inc. (an investment company)
K. MATTHEW HOANG Toronto, Ontario	Chief Financial Officer	Chief Financial Officer, Lawrence Asset Management Inc. since May 1, 2007; Chief Financial Officer, MediResource Inc. from December 2004 to April 2007, prior thereto Consultant

## **Independent Review Committee**

National Instrument 81-107 Independent Review Committee for Investment Funds (“NI 81-107”), requires all publicly offered investment funds to establish an independent review committee (the “IRC”). The Manager must refer all conflict of interest matters in respect of the Company for review or approval to the IRC. NI 81-107 also imposes obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters, to maintain records in respect of these matters and to provide the IRC with guidance and assistance in carrying out its functions and duties. According to NI 81-107, the IRC must be comprised of a minimum of three independent members, and is also subject to requirements to conduct regular assessments of its members and provide reports, at least annually, to the Company and to its unitholders in respect of those functions.

The initial members of the IRC for the Company, who have been appointed as of May 1, 2007, are Mr. John Crow, Mr. John Mills and Mr. Amar Bhalla.

- The IRC engages in the following activities:
- reviews and provides input on the Manager’s written policies and procedures that deal with conflict of interest matters;
- reviews conflict of interest matters referred to it by the Manager and makes recommendations to the Manager regarding whether the Manager’s proposed actions in connection with the conflict of interest matter achieve a fair and reasonable result for the Company;
- considers and, if deemed appropriate, approves the Manager’s decision on a conflict of interest matter that the Manager refers to the IRC for approval; and
- performs other duties as may be required of the IRC under applicable securities laws.

The report prepared by the IRC will be available on the Manager’s website [www.lawrenceasset.com](http://www.lawrenceasset.com), or at a unitholder’s request by contacting the Company at 220 Bay Street, Suite 1500, Toronto, Ontario, M5J 2W4; telephone: 416.362.4999; or toll free: 1.866.404.4999.

## **Brokerage Arrangements**

The Investment Manager has been delegated authority to determine the brokerage arrangements of the Company. Decisions that the Investment Manager may make as to the purchase and sale of portfolio securities and the execution of portfolio transactions for the Company, including the selection of markets and dealers and the negotiation of commissions, are based on elements such as price, speed of execution, certainty of execution and total transaction costs.

### **Custodian**

State Street Trust Company Canada at its head office in Toronto is custodian for the Company pursuant to a custodian agreement dated July 5, 2006.

CIBC World Markets Inc. at its head office in Toronto is a principal sub-custodian with respect to the Series 1 Preferred Repayment Portfolio pursuant to a Sub-Custodian Agreement among the Company, the Manager, IBT, CIBC World Markets Inc. and CIBC dated July 5, 2006.

### **Auditors**

The auditors of the Company are Ernst & Young LLP at its offices in Toronto.

### **Registrar and Transfer Agent**

Computershare Investor Services Inc. acts as registrar and transfer agent for the Company at its principal office in Toronto.

### **Other Service Providers**

State Street Trust Company Canada acts as the accounting agent providing portfolio valuation and fund accounting services to the Company at its offices in Toronto.

### **Conflicts of Interest**

#### **Principal Holders of Securities**

As at the date hereof, the Manager owns all of the issued and outstanding Equity Shares of the Company. As at the date hereof, the Manager and Grant McCutcheon, a senior officer of the Company, each own 500 Class A Shares, each respective portion representing 50% of the issued and outstanding Class A Shares.

Lawrence & Company Inc. is the direct holder of record and beneficial owner of 667 common shares of the Manager, representing 50% of the issued and outstanding common shares of the Manager.

#### **Affiliated Entities**

The Manager and the Investment Manager are both Lawrence Asset Management Inc. The Manager pays all of the fees of the Investment Manager.

### **Company Governance**

The board of directors is responsible for oversight of the management of the Company's affairs. The board consists of four directors, two of whom are non-management individuals.

The board believes that the number of directors is appropriate for the Company. Amounts paid as compensation are reviewed for adequacy to ensure that they realistically reflect the responsibilities and risk involved in being an effective director. Individual directors may engage an outside advisor at the expense of the Company in appropriate circumstances subject to the approval of the board. To assist the board in monitoring of the Company's financial reporting and disclosure, the board has established an Audit Committee. The Audit Committee consists of three members, two of whom are non-management individuals. The responsibilities of the Audit Committee include, but are not limited to, review of the annual financial statements and the annual audit performed by the external auditor and oversight of management's reporting on internal control. The Audit Committee has direct communication channels with the external auditors to discuss and review specific issues as appropriate.

The board is responsible for developing the Company's approach to governance issues and, together with the Manager, adopts governance procedures that it believes are appropriate.

The Company maintains an Investors Relations phone line and web site to respond to inquiries from shareholders.

### **Policies on Covered Call Options and Cash Covered Put Options**

To generate additional returns above the net capital gains, dividends and interest income earned on the Managed Portfolio and to reduce risk, the Company writes covered call options in respect of all or part of the shares in the Managed Portfolio. The Company may 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 Portfolio. The Company may also enter into trades to close out positions in such permitted derivatives.

### **Policies on the Use of Derivatives**

The written policies that set out the objectives and goals for derivatives trading are set out in the investment strategy and objectives and investment restrictions of the Company. The Company may invest in or use derivative instruments as permitted under NI 81-102 for hedging purposes or for other purposes consistent with the investment objectives, investment strategy and investment restrictions of the Company. For example, the Company may use derivatives, including currency and interest rate hedges, with the intention of offsetting or reducing risks associated with its investments. These risks include fluctuations in currency values and interest rate changes. The Company does not use derivatives to create leverage. Therefore, simulations are not used to test the portfolio under stress conditions. As the policies and procedures relevant to derivatives trading are set out in the investment strategy, objectives and restrictions of the Company, they are not subject to change unless so approved by shareholders.

### **Policies on Securities Lending**

The Company may loan Series 1 Repayment Portfolio securities to one or more borrowers (a "Borrower") pursuant to the terms of a securities lending agreement between the Company or a securities lending agent (the "Securities Lending Agent") on its behalf and on behalf of

the Borrower (the “Securities Lending Agreement”). Under a Securities Lending Agreement: (i) the Borrower will pay to the Company a negotiated securities lending fee and will make compensation payments to the Company equal to any distributions received by the Borrower on the loaned securities; (ii) each securities loan must qualify as a “securities lending arrangement” for the purposes of the Tax Act; and (iii) the Company will receive collateral security consisting of cash in Canadian dollars, Canadian or U.S. dollar debt obligations of or guaranteed by the Government of Canada, a province of Canada, the United States or one of the states of the United States, or such other collateral as shall be agreed upon and which is prescribed by NI 81-102. The Company has adopted the provisions of NI 81-102 with respect to lending portfolio securities.

### **Policies on Proxy Voting**

The proxies associated with securities held by the Company will be voted in accordance with the best interests of shareholders determined at the time the vote is cast. The Manager maintains policies and procedures that are designed to be guidelines for the voting of proxies; however, each vote is ultimately cast on a case-by-case basis, taking into consideration the relevant facts and circumstances at the time of the vote. Any conflict of interest must be resolved in a way that most benefits shareholders.

The Manager’s proxy voting policies and procedures set out various considerations that the Manager will address when voting, or refraining from voting, proxies, including that:

- (a) the Manager will generally vote with management on routine matters such as electing corporate directors, appointing external auditors and adopting or amending management compensation plans unless it is determined that supporting management’s position would not be in the best interests of shareholders;
- (b) the Manager will address on a case-by-case basis, non-routine matters, including those business issues specific to the issuer or those raised by shareholders of the issuer with a focus on the potential impact of the vote on the Company’s value; and
- (c) the Manager has the discretion whether or not to vote on routine or non-routine matters. In cases where the Manager determines that it is not in the best interests of shareholders to cast a vote, or in cases where no value is added by voting, there is no requirement to vote.

The policies and procedures that the Company follows when voting proxies relating to portfolio securities are available on request, by calling 1.866.404.4999 or writing to the Manager at the address listed on the back page. The Company’s proxy voting record for the period ended June 30, 2008 is available upon request.

### **Policies on Conflicts of Interest**

The Investment Manager is engaged in a variety of investment management, investment advisory and other business activities. The services of the Investment Manager under the

Investment Management Agreement are not exclusive and nothing in the Investment Management Agreement prevents the Investment Manager or any of its affiliates from providing similar services to other investment funds and other clients (whether or not their investment objectives, strategies and policies are similar to those of the Company) or from engaging in other activities. The Investment Manager's investment decisions for the Company will be made independently of those made for its other clients and independently of its own investments. However, on occasion, the Investment Manager may make the same investment for the Company and for one or more of its other clients. If the Company and one or more of the other clients of the Investment Manager are engaged in the purchase or sale of the same security, the transactions will be effected on an equitable basis.

## **Income Tax Considerations**

The following general summary describes the principal Canadian federal income tax considerations of the acquisition, ownership and disposition of shares of the Company generally applicable as at the date of this Annual Information Form to an individual shareholder, other than a trust, who for the purposes of the Tax Act is resident in Canada, holds shares of the Company as capital property and deals at arm's length with the Company for the purposes of the Tax Act.

This summary is based on the current provisions of the Tax Act and the regulations thereunder (the "Regulations") and the Company's understanding of the current published administrative practices and policies of the Canada Revenue Agency (the "CRA"), and also takes into account all specific proposals to amend the Tax Act and the Regulations publicly announced by the Minister of Finance (Canada) prior to the date hereof (the "Proposed Amendments"). Except for the Proposed Amendments, this summary does not take into account or anticipate any changes in law, whether by legislative, regulatory, administrative or judicial action. Furthermore, this summary is not exhaustive of all possible income tax considerations and, in particular, does not take into account provincial or foreign income tax legislation or considerations.

The income and other tax consequences of acquiring, holding or disposing of shares of the Company vary according to the shareholder's status, the province or provinces in which the shareholder resides or carries on business, and, generally, the shareholder's own particular circumstances. The following description of income tax matters is, therefore, of a general nature only and is not intended to constitute advice to any particular shareholder. Any prospective shareholder should seek independent advice regarding the tax consequences of investing in shares of the Company, based upon their own particular circumstances.

This summary is based on the assumption that the Company currently qualifies and will continue to qualify at all material times as a "mutual fund corporation" (as defined in the Tax Act).

## **The Company**

The taxable portion of capital gains (net of any applicable capital losses) realized by the Company will be subject to tax at normal corporate rates. Taxes paid by the Company on realized capital gains will be refundable on a formula basis when shares are redeemed or when the Company pays capital gains dividends in respect of which the Company elects in the prescribed manner. To the extent permitted by the Tax Act, the Company intends to elect in respect of each dividend paid, or deemed to have been paid by it, to deem the dividend to be a capital gains dividend. Capital gains may be realized by the Company in a variety of circumstances, including on the disposition of shares in the Managed Portfolio.

As a mutual fund corporation, the Company is generally subject to tax on taxable dividends received by the Company from taxable Canadian corporations under Part IV of the Tax Act in an amount equal to 33 $\frac{1}{3}$ % of such dividends, which tax generally is refundable on the basis of \$1 for each \$3 of taxable dividends paid by the Company.

For this purpose, capital gains dividends in respect of which the Company elects in the prescribed manner are not taxable dividends. The Company generally will not be subject to Part IV tax in respect of taxable dividends received from taxable Canadian corporations with which it is connected, as that term is defined in the Tax Act.

As the Company will be a “financial intermediary corporation” as defined in the Tax Act, it will not be subject to tax under Part VI.1 of the Tax Act on dividends that it pays.

## **The Shareholder**

Dividends paid by the Company, other than capital gains dividends, whether received in cash or in additional securities, will generally be included in computing the income of a shareholder. The dividend gross-up and tax credit treatment normally applicable to taxable dividends paid by taxable Canadian corporations will apply to such dividends.

The special dividends paid on the Equity Shares for the purpose of eliminating the Company's liability to tax will be automatically reinvested in additional Equity Shares. The outstanding Equity Shares will then be consolidated such that the number of outstanding Equity Shares following such consolidation will be equal to the number of Equity Shares outstanding prior to the reinvestment of such additional dividends. As a result, a shareholder who receives such a dividend may be liable to pay tax in respect of the dividend even though the shareholder will not have received a cash distribution from the Company. The cost to the shareholder of the additional Equity Shares will be equal to the amount of the reinvested dividend and will be averaged with the adjusted cost base of any other Equity Shares held at that time by the shareholder as capital property.

The Company may also make distributions to shareholders of realized capital gains by way of capital gains dividends. Capital gains dividends paid by the Company to a shareholder will be treated as realized capital gains in the hands of the shareholder and will be subject to the general rules relating to the taxation of capital gains.

Upon the actual or deemed disposition of a share, including the redemption of a share, a

capital gain (or capital loss) will generally be realized to the extent that the proceeds of disposition exceed (or are exceeded by) the aggregate of the adjusted cost base to the holder of the share and any reasonable costs of disposition. One-half of a capital gain (a “taxable capital gain”) is included in computing income and one-half of a capital loss (an “allowable capital loss”) is deductible against taxable capital gains in accordance with the detailed provisions of the Tax Act.

Capital gains and dividends may give rise to a liability for alternative minimum tax under the Tax Act.

The Series 1 Shares, Series 2 Shares and the Equity Shares will generally qualify as “Canadian securities” for purposes of the election of guaranteed capital gains treatment provided for under certain circumstances under the Tax Act. Investors considering making the irrevocable election to have all Canadian securities (including the Series 1 Shares, Series 2 Shares and Equity Shares) owned by them deemed to be capital property should consult their own tax advisors.

### **Qualified Investments for Registered Plans**

The shares of the Company are qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans.

### **Remuneration of Directors and Officers**

The officers of the Company do not receive any remuneration from the Company. Each director is entitled to receive \$7,500 per year and \$750 for attending each meeting of the board of directors and each committee meeting of the board of directors. The Manager is entitled to a Management Fee for its services to the Company.

### **Material Contracts**

The following contracts can reasonably be regarded as material to an investor in the shares of the Company:

- (a) Management Agreement between the Company and the Manager dated May 31, 2002;
- (b) Investment Management Agreement between the Manager and the Investment Manager dated May 31, 2002;
- (c) Custodian Contract between the Company and IBT Trust Company (Canada) dated July 5, 2006; and
- (d) Confirmation of Preferred Repayment Forward Transaction (previously defined as the “Series 1 Repayment Forward Agreement”) between the

Company and CIBC World Markets Securities Ireland Limited dated June 25, 2002.

Copies of the foregoing agreements may be inspected by existing shareholders of the Company during business hours at the office of the Company at 220 Bay Street, Suite 1500, Toronto, ON M5J 2W4, and are available at [www.sedar.com](http://www.sedar.com).

## **Legal and Administrative Proceedings**

There are no ongoing material legal or administrative proceedings relating to the Company, to which the Company, the Manager or the distributor is a party.

## **Other Material Information**

### **Risk Factors**

The following are certain considerations relating to an investment in Series 1 Shares, Series 2 Shares or Equity Shares which prospective investors should consider before purchasing such shares.

#### *No Assurance of Achieving Objectives and Paying Dividends*

There can be no assurance that the Company will be successful in meeting its dividend objectives and the Company may in the future be required to reduce the amount of the dividends paid to the holders of the Series 1 Shares and Series 2 Shares if the Company does not earn a sufficient return on the Managed Portfolio to maintain the dividend payments on such Series 1 Shares and Series 2 Shares. Any unpaid dividends would accrue and upon termination of the Company, be paid from any assets remaining after paying or making provision for the Company's Liabilities (excluding accrued Management Fees). A holder of Series 1 Shares or Series 2 Shares redeeming their shares prior to the Termination Date will not be entitled to receive accrued dividends which have not been declared payable prior to the Redemption Date. There is also no assurance that the Company will be successful in meeting its capital payment and repayment objectives or earn any return on the Offered Shares or that upon termination the Company will have sufficient assets to pay accrued but unpaid dividends.

In March 2008, the Company suspended dividend payments to the Series 1 and Series 2 Shares.

#### *Fluctuations in Net Asset Value*

The net asset value and the funds available for dividends will vary according to, among other things, the value of the Managed Portfolio securities acquired by the Company and the interest, dividends and distributions earned thereon, the volatility of such securities and the levels of option premiums received. Fluctuations in the market value of the Managed Portfolio securities in which the Company invests may occur for a number of reasons beyond the control of the Investment Manager or the Company. Overweighting investments in certain sectors or industries involves risk that the Company will suffer a loss because of

general advances or declines in the prices of securities in those sectors or industries. The Series 1 Shares, Series 2 Shares and Equity Shares (if applicable) may trade in the market at a premium or discount to their proportionate shares of net asset value and there can be no assurance that such shares will trade at a price equal to their respective share of net asset value. The value of the Managed Portfolio will be influenced by the performance of the issuers whose shares, units, equity securities or debt securities are included in the Managed Portfolio, their dividend and distribution payment policies and yields, as the case may be, and financial market and economic conditions generally. A substantial drop in the North American equities markets could be expected to have a negative effect on the Company. If such drop were to lead to a significant decline in the value of the Managed Portfolio, the Company could be prevented from paying dividends and meeting its capital payment objectives.

#### *No Guaranteed Rate of Return*

There is no guarantee that the Managed Portfolio will earn any return or that the Company will be in a position to pay dividends on the Series 1 Shares, Series 2 Shares or Equity Shares in any period or to return to holders of Series 1 Shares and Series 2 Shares an amount equal to the Original Investment Amount per share upon the termination of the Company. In addition, as the Equity Shares rank junior to the Series 1 Shares and Series 2 Shares, there is no assurance that there will be any assets of the Company remaining after making provision for the Company's Liabilities and returning the Original Investment Amount to the holders of the Series 1 Shares and Series 2 Shares. An investment in the Company is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment and who can withstand the effect of the target return not being met and dividends not being paid in any period.

#### *Interest Rate Sensitivity*

It is anticipated that the trading price of the Series 1 Shares, Series 2 Shares and Equity Shares (if applicable), the Equivalent Canada Bond Value of the Series 1 Shares and Series 2 Shares and the Company's net asset value will, at any time, be affected by the level of interest rates prevailing at such time. A rise in interest rates may have a negative effect on the trading price of the Series 1 Shares, Series 2 Shares and Equity Shares (if applicable) and on the Equivalent Canada Bond Value of the Series 1 Shares and Series 2 Shares. In addition, prior to the Termination Date, the net asset value of the Company may be affected by interest rate fluctuations because the value of the Series 1 Forward Agreement and the Managed Portfolio will fluctuate based on interest rates. Holders wishing to sell or redeem such shares will therefore be exposed to the risk that the net asset value of the Company, the trading price or the Equivalent Canada Bond Value of such shares will be negatively impacted by interest rate fluctuations.

#### *Rating of Series 1 Shares and Series 2 Shares*

In January 2008 DBRS reduced the credit rating of the Series 1 and Series 2 shares to Pfd-2 (low) and Pfd-4 respectively, as it determined that the returns on the Company's Managed Portfolio would not be sufficient for the Company to continue with the monthly payment of distributions.

#### *Foreign Currency Exposure*

As the Managed Portfolio may, and will generally, include securities and options denominated in U.S. dollars, the net asset value of the Company and the net income of the Company, when measured in Canadian dollars, will be affected by changes in the value of the U.S. dollar relative to the Canadian dollar.

#### *Commodity Price Fluctuation*

The Company may invest in securities of income funds which are resource-based issuers. The operations and financial condition of resource-based issuers and, accordingly, the amount of distributions paid on their units or other equity securities is dependent in part on commodity prices applicable to the commodities sold by such issuers. Prices for commodities will vary and are determined by supply and demand factors, including weather, general economic conditions and political conditions. A decline in commodity prices could have an adverse effect on the operations and financial conditions of such issuers and the amount of distributions paid on their units or on their equity securities, as the case may be. In addition, certain commodities are based on a U.S. dollar market price. Accordingly, an increase in the value of the Canadian dollar against the U.S. dollar could reduce the amount of the distribution paid on such units or equity securities of resource-based issuers.

#### *Real Estate Investments*

The Managed Portfolio may invest in real estate income trusts (“REITs”). Investments in REITs are subject to the general risks associated with real property investments. Real property investments are affected by various factors including changes in general economic conditions (such as the availability of long term mortgage funds) and in local conditions (such as oversupply of space or a reduction in demand for real estate in the area), the attractiveness of the properties to tenants, competition from other available space and various other factors. The value of a real property and any improvements thereto may also depend on the credit and financial stability of the tenants. A REIT’s income and funds available from distribution to its unitholders would be adversely affected if a significant number of tenants were to become unable to meet their obligations to the REIT or if the REIT were unable to lease a significant amount of available space in its properties on economically favourable lease terms.

#### *Use of Options and other Derivative Instruments*

The Company is subject to the full risk of its investment position in the shares of the companies in the Managed Portfolio, including those shares that are subject to outstanding call options, should the market price of the shares decline. In addition, the Company will not participate in any gain on the shares that are subject to outstanding call options above the strike price of the options. There can be no assurance that a liquid exchange or over-the-counter market will exist to permit the Company to write covered call options or cash covered put options on desired terms or to close out option positions should the Investment Manager desire to do so. In purchasing call or put options, the Company is subject to the credit risk that its counterparty (whether a clearing corporation in the case of exchange traded instruments, or other third party, in the case of over-the-counter instruments) may be unable to meet its obligations. The ability of the Company to close out its positions may also be affected by exchange-imposed daily trading limits on options. If the Company is unable to repurchase a call option that is in-the-money, it will be unable to realize its profits or limit its

losses until such time as the option becomes exercisable or expires. In addition, upon the exercise of a put option, the Company will be obligated to acquire a security at a strike price which may exceed the then current market value of such security. In purchasing call or put options or entering into forward or future contracts, the Company is subject to the credit risk that the counterparty may be unable to meet its obligations.

#### *Suspension of Redemptions*

The Company may suspend the redemption of Series 1 Shares, Series 2 Shares and Equity Shares or payment of redemption proceeds: (i) for the whole or any part of a period when normal trading is suspended on one or more stock exchanges, options exchanges or futures exchanges or other markets within or outside Canada on which shares are listed and traded, or on which specified derivatives are traded if those securities or specified derivatives represent more than 50% by value, or underlying market exposure, of the total assets of the Company without allowances for liabilities and if those securities or specified derivatives are not traded on any other exchange or market that represents a reasonably practical alternative for the Company (or as otherwise permitted under NI 81-102 without the permission of the Ontario Securities Commission), or (ii) with the permission of the Ontario Securities Commission, for any period not exceeding 120 days during which the Company determines that conditions exist which render impractical the sale of assets of the Company or which impair the ability of the Company to determine the value of the assets of the Company. In the event of a suspension of redemptions, holders of Series 1 Shares, Series 2 Shares and Equity Shares may experience reduced liquidity.

#### *Substantial Redemptions*

Series 1 Shares, Series 2 Shares and Equity Shares may be redeemed monthly. If holders of a substantial number of Series 1 Shares, Series 2 Shares or Equity Shares exercise their redemption privilege, the number of such shares outstanding and the net asset value of the Company could be significantly reduced with the effect of potentially decreasing the liquidity of the shares in the market and increasing the management expense ratio of the Company.

#### *Reliance on the Manager and the Investment Manager*

Holders of Series 1 Shares, Series 2 Shares and Equity Shares will be dependent on the Manager and its employees in respect of the administration and management of the Company. Such holders will also be dependent on the Investment Manager to manage the Managed Portfolio in a manner consistent with the investment objectives, strategy and restrictions of the Company. The officers of the Investment Manager are primarily responsible for the management of the Managed Portfolio have extensive experience in managing investment portfolios. However, there is no certainty that such individuals will continue to be employees of the Investment Manager throughout the term of the Investment Management Agreement.

#### *Treatment of Proceeds of Disposition and Option Premiums*

In determining its income for tax purposes, the Company will treat gains and losses realized on the disposition of shares in the Managed Portfolio, option premiums received on the writing of covered call options and any losses sustained on closing out options as capital gains and capital losses in accordance with CRA's published administrative practice. Gains or losses on the disposition of equity securities in the Series 1 Repayment Portfolio upon

delivery under the Series 1 Forward Agreement will be treated as capital gains or capital losses. CRA's practice is not to grant advance income tax rulings on the character of items as capital or income and no advance income tax ruling has been applied for or received from CRA. If, contrary to CRA's published administrative practice, some or all of the transactions undertaken by the Company in respect of options and shares in the Managed Portfolio were treated on income rather than capital account, or if contrary to the advice of counsel or as a result of a change of law, the character and timing of the gain under the Series 1 Forward Agreement were other than a capital gain on sale of the shares thereunder, after tax returns to holders of Series 1 Shares, Series 2 Shares and Equity Shares could be reduced and the Company may be subject to non-refundable income tax in respect of income from such transactions and the Company may be subject to penalty taxes in respect of excessive capital gains dividends elections.

#### *Taxation on the Equity Shares*

Holders of Equity Shares may receive dividends that will be automatically reinvested in additional Equity Shares. Such shareholders may be liable to tax in respect of such dividends even though they do not receive a cash distribution from the Company with which to pay such tax. In addition, the value of the additional Equity Shares acquired on the reinvestment of the dividend may not necessarily be equal to the amount of the reinvested dividend.

#### *Loss of Full Capital Repayment*

While one of the Company's investment objectives is to return to the holders of Series 1 Shares and Series 2 Shares the Original Investment Amount on the Termination Date, there can be no assurance that this will be possible in all circumstances. See page 59 of the Prospectus for more information on this risk.

#### *Subordination of the Equity Shares*

There is no assurance that dividends will be paid or a capital payment made on the Equity Shares as such shares rank junior to the Series 1 Shares and Series 2 Shares with respect to dividends and capital payment.

#### *Securities Lending*

The Company may engage in securities lending as permitted under the Securities Lending Agreement. Although the Company will receive collateral for the loans and such collateral is marked to market, the Company will be exposed to the risk of loss should the borrower default on its obligation to return the borrowed securities and the collateral is insufficient to reconstitute the portfolio of loaned securities.

#### *Deductibility of Expenses*

There is no assurance that certain expenses to be incurred by the Company will be deductible due to the lack of an established administrative position of CRA.

#### *Illiquid Securities*

If the Investment Manager is unable to dispose of some or all of the Managed Portfolio securities prior to the Termination Date, the Company may experience a delay in the receipt of the payment until such time as the Investment Manager is able to dispose of such Managed Portfolio securities. If the Investment Manager determines that it is appropriate to acquire

certain securities for the Company, the Investment Manger may be unable to acquire the number of such securities, or to acquire such securities at a price acceptable to the Investment Manager, if the market for such securities is particularly illiquid.

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Additional information about the Company is available in the Company's management reports of fund performance and financial statements.

You can get a copy of these documents by calling toll-free 1.866.404.4999, or from your dealer or by e-mail at [info@lawvest.com](mailto:info@lawvest.com).

The financial statements and other information about the Company, such as information circulars and material contracts, are also available on the Lawrence Asset Management Inc. Internet site at [www.lawrenceasset.com](http://www.lawrenceasset.com) or at [www.sedar.com](http://www.sedar.com).