

**PREMIUM INCOME CORPORATION**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS  
AND  
MANAGEMENT INFORMATION CIRCULAR**

**Meeting to be held at 8:30 a.m.  
Friday, May 16, 2003  
1 First Canadian Place  
Suite 6300  
100 King Street West  
Toronto, Ontario**

**Premium Income Corporation**

121 King Street West  
Standard Life Centre  
Suite 2600  
Toronto, Ontario  
M5H 3T9

April 15, 2003

Dear Shareholders:

You are invited to a special meeting (the "Meeting") of holders of Class A Shares and Preferred Shares of Premium Income Corporation (the "Corporation") to be held on Friday, May 16, 2003 at 8:30 a.m. (Toronto time) at 1 First Canadian Place, Suite 6300, 100 King Street West, Toronto, Ontario.

**The purpose of the Meeting is to consider and vote upon a special resolution to extend the life of the Corporation by extending the mandatory redemption date of the Preferred Shares and the Class A Shares to November 1, 2010 from November 1, 2003.**

The Corporation has met or exceeded all its investment objectives with respect to the shares. First, the Corporation has exceeded its distribution objectives. As at January 31, 2003, the Corporation had paid holders of Class A Shares regular distributions of \$5.00 and special distributions of \$5.45, totalling \$10.45. This represents an average yield from inception of 16.7% per annum compared to the original target yield of 8% based on the original issue price. As at January 31, 2003, the Corporation had also paid holders of Preferred Shares distributions totalling \$5.52. This represents an average yield from inception of 5.88% per annum compared to the original target yield of 5.75% based on the original issue price. Second, the Corporation has met its objective of preserving net asset value in order to be able to return the original issue price of the Preferred Shares and the Class A Shares. As at March 31, 2003, the net asset value per Preferred Share and Class A Share was \$24.91 compared to the \$25.00 aggregate original issue price.

In order to become effective, the special resolution must be approved by a two-thirds majority of the Preferred Shares and the Class A Shares represented at the Meeting, each voting separately as a class. If the special resolution is approved, holders of Preferred Shares and Class A Shares will be permitted to extend their investment in the Corporation, while maintaining the rights originally provided. All of the rights of your shares will remain the same during the extended life of the Corporation. If the special resolution is not approved, the Preferred Shares and the Class A Shares will be redeemed on November 1, 2003.

Attached is a Notice of Special Meeting of Shareholders and a Management Information Circular which contain important information relating to the special resolution. You are urged to read the Management Information Circular carefully. If you are in doubt as to how to deal with the matters described in the Management Information Circular, you should consult your financial advisor.

If you are a holder of Preferred Shares or Class A Shares and wish to extend the mandatory redemption date, you should contact your broker and submit the enclosed voting instruction form voting in favour of the special resolution, as soon as possible, and in any event no later than 5:00 p.m. (Toronto time) on Wednesday, May 14, 2003. All holders of Preferred Shares and Class A Shares are encouraged to attend the Meeting.

**The Board of Directors of the Corporation has determined that the special resolution is in the best interests of the Corporation and its shareholders. Accordingly, the Board of Directors recommends that shareholders of the Corporation vote in favour of the special resolution.**

Sincerely,



JOHN P. MULVIHILL  
President

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## NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

**TAKE NOTICE THAT** a Special Meeting (the “Meeting”) of the holders of Preferred Shares and Class A Shares of Premium Income Corporation (the “Corporation”) will be held at 1 First Canadian Place, Suite 6300, 100 King Street West, Toronto, Ontario on Friday, May 16, 2003 at the hour of 8:30 a.m. (Toronto time) for the following purposes:

1. To consider and, if thought advisable, approve a special resolution (the “Special Resolution”) to:
  - extend the mandatory redemption date for the Preferred Shares and the Class A Shares to November 1, 2010; and
  - provide the holders of Preferred Shares and Class A Shares with an additional retraction right, all as more fully described in the accompanying Management Information Circular.
2. To transact such further and other business as may properly come before the Meeting or any adjournment or adjournments thereof.

Holders of Preferred Shares and Class A Shares will be entitled to vote separately as a class on the Special Resolution. A copy of the Special Resolution is attached as Appendix I to the accompanying Management Information Circular.

Dated at Toronto, Ontario this 15th day of April, 2003.

By Order of the Board of Directors



JOHN P. MULVIHILL  
President

**Note: Reference should be made to the accompanying Management Information Circular for details of the above matters. If you are unable to be present in person at the Meeting you are requested to complete and sign the enclosed voting instruction form and to return it in the enclosed envelope provided for that purpose.**

## PREMIUM INCOME CORPORATION

Premium Income Corporation (the “Corporation”) is a mutual fund corporation incorporated under the laws of the Province of Ontario on August 27, 1996. The manager of the Corporation is Mulvihill Fund Services Inc. (“Mulvihill”) and the investment manager is Mulvihill Capital Management Inc. (“MCM”). Mulvihill is a wholly-owned subsidiary of MCM. The principal office of each of the Corporation, Mulvihill and MCM is located at 121 King Street West, Standard Life Centre, Suite 2600, Toronto, Ontario, M5H 3T9.

For further information relating to the Corporation, see “Appendix II — Additional Information”.

The Corporation invests in a portfolio (the “Portfolio”) consisting principally of common shares issued by Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada and The Toronto-Dominion Bank. To generate additional returns above the dividend income earned on the Portfolio, the Corporation writes covered call options in respect of all or a part of the securities in the Portfolio from time to time. From time to time, the Corporation may also hold a portion of its assets in cash equivalents, which may be used to provide cover in respect of the writing of cash covered put options in respect of securities in which the Corporation is permitted to invest.

On October 30, 1996, the Corporation completed its initial public offering of 4,000,000 Preferred Shares and 4,000,000 Class A Shares pursuant to a final prospectus dated October 17, 1996. The Preferred Shares and Class A Shares are to be redeemed by the Corporation on November 1, 2003 in accordance with their terms unless the term is extended as contemplated in this Management Information Circular.

**The Board of Directors of the Corporation has determined (Messrs. Mulvihill and Middleton abstaining from voting thereon) that the proposal described below under “Details of the Proposal” is in the best interests of the Corporation and its shareholders and unanimously recommends that holders of Preferred Shares and Class A Shares vote in favour of such proposal.**

### HISTORIC PERFORMANCE OF THE CLASS A SHARES AND THE PREFERRED SHARES

#### Class A Shares

As at January 31, 2003, the Corporation had paid the holders of Class A Shares regular distributions of \$5.00 and special distributions of \$5.45, totalling \$10.45. This represents an average yield from inception of 16.7% per annum compared to the original target yield of 8% based on the original issue price. As such distributions were generated primarily from covered option writing, distributions on the Class A Shares are characterized and treated as capital gains dividends to holders of the Class A Shares. At the current highest marginal tax rates in Ontario, this represents a pre-tax interest equivalent yield of approximately 23.9% per annum. The table below sets out in more detail information relating to the distributions paid to holders of Class A Shares and the yield on such shares.

<u>Year</u>	Distributions Per Class A Share		
	<u>Regular Distributions</u>	<u>Special Distributions</u>	<u>Total Distributions Paid</u>
1997 .....	\$ 0.80	\$ 1.90	\$ 2.70
1998 .....	\$ 0.80	\$ 0.50	\$ 1.30
1999 .....	\$ 0.80	\$ 0.40	\$ 1.20
2000 .....	\$ 0.80	\$ 0.60	\$ 1.40
2001 .....	\$ 0.80	\$ 1.35	\$ 2.15
2002 .....	\$ 0.80	\$ 0.60	\$ 1.40
2003 <sup>(1)</sup> .....	<u>\$ 0.20</u>	<u>\$ 0.10</u>	<u>\$ 0.30</u>
<b>Total</b> .....	<u><u>\$ 5.00</u></u>	<u><u>\$ 5.45</u></u>	<u><u>\$ 10.45</u></u>
<b>Annualized Yield</b> .....	8.00%		16.70%
<b>Pre-tax interest equivalent<sup>(2)</sup></b> .....			23.93%

(1) Includes all distributions through January 31, 2003.

(2) Assumes a 100% capital gains dividend and an Ontario marginal tax rate of 46.41%.

The Corporation's other objective with respect to the Class A Shares is to return the original issue price of \$10.00. As at March 31, 2003, the net asset value per Class A Share was \$9.91.

**Preferred Shares**

As at January 31, 2003, the Corporation had paid holders of Preferred Shares distributions totalling approximately \$5.52 since inception. This represents a yield from inception of 5.88% per annum compared to the original target yield of 5.75% based on the original issue price, due to the capital gains gross up required by the terms of such shares. At the current highest marginal tax rates in Ontario, this represents a pre-tax interest equivalent yield of approximately 8% per annum. The table below sets out in more detail information relating to the distributions paid to holders of Preferred Shares and the yield on such shares.

<u>Year</u>	<u>Distributions Per Preferred Share</u>		
	<u>Regular Distributions</u>	<u>Capital Gains Gross-Up</u>	<u>Total Distributions Paid</u>
1997 .....	\$0.8625	\$0.0153	\$0.87780
1998 .....	\$0.8625	\$0.0218	\$0.88430
1999 .....	\$0.8625	\$0.02611	\$0.88861
2000 .....	\$0.8625	\$0.017533	\$0.880033
2001 .....	\$0.8625	\$0.021726	\$0.884226
2002 .....	\$0.8625	\$0.02167	\$0.884170
2003(1) .....	\$0.215625	\$0.005718	\$0.221343
<b>Total</b> .....	<u>\$5.390625</u>	<u>\$0.129857</u>	<u>\$5.520482</u>
<b>Annualized Yield</b> .....	5.75%		5.88%
<b>Pre-tax interest equivalent(2)</b> .....			8.07%

(1) Includes all distributions through January 31, 2003.

(2) Assumes 60% dividend income and 40% capital gains and an Ontario marginal tax rate of 46.41%.

The Corporation's other objective with respect to the Preferred Shares is to return the original issue price of \$15.00. The net asset value per Preferred Share has not fallen below \$15.00 since inception.

**DETAILS OF THE PROPOSAL**

**(a) Extension**

Shareholders are being asked to pass a special resolution in the form attached hereto as Appendix I (the "Special Resolution") to extend the mandatory redemption date for the Preferred Shares and the Class A Shares to November 1, 2010.

The Articles of the Corporation currently provide that the Preferred Shares and the Class A Shares shall be redeemed by the Corporation on November 1, 2003. The Corporation proposes to extend the mandatory redemption date to November 1, 2010 in order to continue to provide shareholders with the opportunity to participate in the performance of the Portfolio.

**(b) Additional Retraction Right**

In order to preserve the rights originally provided to holders of Preferred Shares and Class A Shares, the Corporation also proposes to amend the terms of such shares to permit the holders of such shares to retract their shares (the "Additional Retraction Right") on June 30, 2003 (the "Additional Retraction Date") at a price per share (the "Additional Retraction Price") determined on the same basis that would have been used by the Corporation to determine the price for such shares on November 1, 2003 had the mandatory redemption date not been extended.

In order to maintain the one Preferred Share to one Class A Share "split share" structure, the Corporation also proposes to amend its Articles to permit the Corporation to redeem Preferred Shares to the extent that unmatched Class A Shares are retracted pursuant to the Additional Retraction Right and to redeem Class A Shares to the extent that unmatched Preferred Shares are retracted pursuant to the Additional Retraction Right (the "Additional

Redemption Right”). Any Preferred Shares or Class A Shares to be so redeemed will be redeemed on the Additional Retraction Date on a pro rata basis from the holders of such shares. The Corporation will not exercise the Additional Redemption Right, and will first purchase shares in the market, unless the aggregate cost of acquiring such shares in the market exceeds the aggregate original issue price of such shares by more than \$100,000. Management of the Corporation does not anticipate that such costs will exceed the aggregate original issue price by more than \$100,000 and therefore, the Corporation does not anticipate that it will exercise the Additional Redemption Right.

Retraction payments for Preferred Shares and Class A Shares tendered under the Additional Retraction Right will be made no later than June 30, 2003 provided that such shares have been surrendered for redemption on or before May 30, 2003. Preferred Shares and Class A Shares will be irrevocably surrendered for such retraction upon delivery of written notice to The Canadian Depository for Securities Limited through a CDS participant.

If Preferred Shares or Class A Shares are to be redeemed by the Corporation under the Additional Redemption Right, the Corporation will provide notice of redemption to CDS participants holding Preferred Shares or Class A Shares on behalf of beneficial owners on or prior to June 15, 2003 and redemption payments for Preferred Shares or Class A Shares so redeemed will be made no later than June 30, 2003.

The retraction price per share to be received by a holder of Class A Shares under the Additional Retraction Right or the Additional Redemption Right will equal the net asset value per Unit (a “Unit” is considered to consist of one Preferred Share and one Class A Share, taken together) as of May 30, 2003, less \$15.00. The retraction price per share to be received by a holder of Preferred Shares under the Additional Retraction Right or the Additional Redemption Right will equal the lesser of \$15.00 and the net asset value per Unit as of May 30, 2003.

Holders of Preferred Shares and Class A Shares will also continue to have the right to retract their shares on an annual basis and on a monthly basis for the applicable retraction prices originally provided.

#### **RECOMMENDATION OF THE BOARD OF DIRECTORS**

The Board of Directors of the Corporation has determined (Messrs. Mulvihill and Middleton abstaining from voting thereon) that the Special Resolution is in the best interests of the Corporation and its shareholders and unanimously recommends that holders of Preferred Shares and Class A Shares vote in favour of such Special Resolution.

In arriving at such determination, consideration was given to the following factors:

- The Corporation has been a successful investment vehicle and extending the term of the Corporation will enable shareholders to continue to benefit from a diversified portfolio of Canadian Bank shares.
- The extension of the redemption date for the Preferred Shares and Class A Shares and the other amendments to the share provisions will not result in a disposition of such shares.
- The Special Resolution will not affect the ability of a holder of Preferred Shares or a holder of Class A Shares to have his or her shares redeemed at a redemption price determined on the same basis originally contemplated.

#### **EXPENSES OF THE PROPOSAL**

Whether or not the Special Resolution is approved, all costs associated with the Proposal will be borne by the Corporation and therefore, in effect, by the holders of Class A Shares. Assuming no shares are retracted on the Additional Retraction Date, such costs (not including the fees discussed below) are estimated to be \$125,000.

The Corporation has retained RBC Dominion Securities Inc. (“RBC DS”) to form and manage a soliciting dealer group to solicit votes in favour of the Special Resolution. The Corporation has paid RBC DS a fee of \$300,000 for its services to date. In addition, an additional success fee of up to \$700,000 (less 1% of the net asset value of any shares retracted or redeemed pursuant to the Additional Retraction Right or the Additional Redemption Right) will be paid by the Corporation to RBC DS following approval of the Special Resolution. A solicitation fee equal to \$0.15 per Preferred Share and \$0.15 per Class A Share voted in favour of the Special Resolution will be paid by the Corporation to properly designated soliciting brokers upon approval of the Special Resolution, provided that such shares are not retracted on the Additional Retraction Date.

The solicitation fee payable in respect of any single beneficial owner of shares who votes in favour of the Special Resolution and does not exercise the Additional Retraction Right will not be less than \$85.00 and will not be more than \$1,500.00.

### TERMINATION OF THE PROPOSAL

The Special Resolution may, at any time before or after the holding of the special meeting of holders of Preferred Shares and Class A Shares (the “Meeting”) (but prior to the issuance of a Certificate of Amendment under the *Business Corporations Act* (Ontario) (the “OBCA”) giving effect to the Special Resolution) be terminated by the Board of Directors without further notice to, or action on the part of, holders of Preferred Shares or Class A Shares if the Board of Directors determines in its sole judgment that it would be inadvisable for the Corporation to proceed.

### INTEREST OF MANAGEMENT AND OTHERS IN THE PROPOSAL

MCM owns 100% of the issued and outstanding Class B Shares of the Corporation. Mulvihill receives a management fee and MCM receives investment management fees as described in “Appendix II — Additional Information”.

Certain of the officers and directors of the Corporation are also employees or officers of Mulvihill or MCM. See “Appendix II — Additional Information”.

### CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Osler, Hoskin & Harcourt LLP, counsel to the Corporation, the following fairly summarizes the principal Canadian federal income tax considerations relating to the Special Resolution that are generally applicable to holders of Preferred Shares and Class A Shares who at all relevant times for purposes of the *Income Tax Act* (Canada) (the “Tax Act”) hold such shares as capital property and deal at arm’s length with and are not affiliated with the Corporation. Certain holders whose Preferred Shares or Class A Shares might not otherwise qualify as capital property may be entitled to make the irrevocable election in the circumstances permitted by subsection 39(4) of the Tax Act to deem such shares (and all other Canadian securities owned by the holder) to be capital property. Preferred Shares or Class A Shares held by certain “financial institutions” (as defined in the Tax Act) will generally not be capital property to such holders and will be subject to special rules in the Tax Act applicable to securities held by financial institutions. These rules are not discussed in this summary and holders to whom these rules may be relevant should consult their own tax advisors.

This summary is based on the current provisions of the Tax Act, the regulations thereunder (the “Regulations”), all specific proposals to amend the Tax Act and Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the “Draft Amendments”), and counsel’s understanding of the current administrative practices of the Canada Customs and Revenue Agency. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except as mentioned above, does not anticipate any changes in law, nor does it take into account, provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein.

**This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder of Preferred Shares or Class A Shares, and no representations with respect to the income tax consequences to any particular holder of Preferred Shares or Class A Shares are made. Accordingly, holders of Preferred Shares and Class A Shares should consult their own tax advisors for advice with respect to the tax consequences to them of the Special Resolution, including the application and effect of the income and other tax laws of any country, province, state or local tax authority.**

The Corporation currently meets and expects to continue to meet (including if the Special Resolution is approved) certain minimum requirements in respect of the public distribution of its shares. The Special Resolution will not affect the status of the Corporation as a “mutual fund corporation” and a “financial intermediary corporation” under the Tax Act.

The changes to the share provisions set forth in the Special Resolution will not constitute a disposition of Preferred Shares or Class A Shares if the Special Resolution is approved by shareholders of the Corporation.

## DISSENT RIGHTS

The holders of Preferred Shares and Class A Shares have the right to dissent from the Special Resolution pursuant to Section 185 of the OBCA. Reference is made to Appendix III to this Management Information Circular which contains a summary of this right to dissent.

## VOTING SECURITIES AND PRINCIPAL HOLDERS

As of March 31, 2003 there were 1,000 Class B Shares, 3,979,300 Preferred Shares and 3,979,300 Class A Shares outstanding.

As of March 31, 2003, to the knowledge of the directors and officers, no person owns of record more than 10% of the outstanding Preferred Shares or Class A Shares of the Corporation other than CDS & Co., the nominee of The Canadian Depository for Securities Limited which holds all of the Preferred Shares and Class A Shares as registered owner for various brokers and other persons on behalf of their clients and others and the names of the beneficial owners of such shares are not known to the Corporation.

## GENERAL PROXY INFORMATION

### Information Circular

This Information Circular is furnished in connection with the solicitation by management of the Corporation of proxies to be used at the Meeting to be held at the time and place and for the purposes set out in the Notice of Special Meeting of Shareholders accompanying this Management Information Circular. The Meeting will be held on Friday, May 16, 2003 at 8:30 a.m. (Toronto time) at 1 First Canadian Place, Suite 6300, 100 King Street West, Toronto, Ontario. Sending notice of the meeting and soliciting proxies for the meeting will be paid by the Corporation. Solicitation of proxies will be by mail and may be supplemented by telephone or other personal contact by agents of the Corporation.

### Voting Rights, Record Date, Quorum and Proxy Information

To be used at the Meeting, a proxy must be deposited with Computershare Trust Company of Canada at 100 University Avenue, Toronto, Ontario M5J 2Y1 (or if by facsimile sent to: 416-263-9524 or 1-866-249-7775) at any time up to 5:00 p.m. (Toronto time) on May 14, 2003 or with the Chairman of the Meeting prior to the commencement of the Meeting on the day of the Meeting or the day of any adjournment of the Meeting.

Only holders of record at the close of business on April 14, 2003 of Preferred Shares and Class A Shares will be entitled to vote in respect of the matters to be voted at the Meeting, or any adjournment thereof, including the Special Resolution.

With respect to each matter properly before the Meeting, a shareholder shall be entitled to one vote for each share registered in the name of such shareholder.

Pursuant to the Corporation's Articles, a quorum at the Meeting will consist of shareholders present in person or represented by proxy holding not less than 10% of the outstanding Preferred Shares and 10% of the outstanding Class A Shares of the Corporation. If the quorum requirement is not satisfied within one-half hour of the scheduled time for the Meeting, then the Meeting will be adjourned by the Chairman of the Meeting. If adjourned, the Meeting will be rescheduled for 4:00 p.m. on May 16, 2003. At the adjourned meeting, the business of the Meeting will be transacted by those holders of Preferred Shares and Class A Shares present in person or represented by proxy.

### Appointment of Proxy Holders

Shareholders who are unable to be present at the Meeting may still vote through the use of proxies. If you are a shareholder, you should complete, execute and return the enclosed proxy form. By completing and returning the enclosed proxy form, you can participate in the Meeting through the person or persons named on the form. Please indicate the way you wish to vote on each item of business and your vote will be cast accordingly. **If you do not indicate a preference, the shares represented by the enclosed proxy form, if the same is executed in favour of the management appointees named in the proxy form and deposited as provided in the Notice of Special Meeting of Shareholders, will be voted in favour of all matters identified in such Notice of Special Meeting of Shareholders.**

### **Discretionary Authority of Proxies**

The proxy form confers discretionary authority upon the management appointees named therein with respect to such matters, including without limitation such amendment or variation to the Special Resolution, as, though not specifically set forth in the Notice of Special Meeting of Shareholders, may properly come before the Meeting. The Board of Directors and management does not know of any such matter which may be presented for consideration at the Meeting. However, if any such matter is presented, the proxy will be voted thereon in accordance with the best judgment of the management appointees named in the proxy form.

**On any ballot that may be called for at the Meeting, all shares in respect of which the management appointees named in the accompanying proxy form have been appointed to act will be voted in accordance with the specification of the shareholder signing the proxy form. If no such specification is made, then the shares will be voted in favour of all matters identified in the Notice of Special Meeting of Shareholders.**

### **Alternate Proxy**

**A shareholder has the right to appoint a person other than the management appointees designated on the accompanying proxy form by crossing out the printed names and inserting the name of the person he or she wishes to act as proxy in the blank space provided, or by completing another proxy form. Proxy forms which appoint persons other than the management appointees whose names are printed on the form should be submitted to the Corporation and the person so appointed should be notified. A person acting as proxy need not be a shareholder.**

On any ballot that may be called for at the Meeting, all shares in respect of which the person named in a proxy form has been appointed to act shall be voted or withheld from voting in accordance with the specification of the shareholder signing such proxy form. If no such specification is made, then the shares may be voted in accordance with the best judgment of the person named in the proxy form. Furthermore, the person named in the proxy form will have discretionary authority with respect to any amendments to the matters set forth in the Notice of Meeting and with respect to any other matters that may properly come before the Meeting, and will be voted on such amendments and other matters in accordance with the best judgment of the person named in such proxy form.

### **Revocation of Proxies**

If the accompanying form of proxy is executed and returned, such proxy may nevertheless be revoked pursuant to subsection 110(4) of the OBCA by an instrument in writing executed by the shareholder or his or her attorney authorized in writing, as well as in any other manner permitted by law. Any such instrument revoking a proxy must either be deposited at the registered office of the Corporation no later than 5:00 p.m. (Toronto time) on the day before the day of the Meeting or be deposited with the Chairman of the Meeting on the day of the Meeting or any adjournment thereof. If the instrument of revocation is deposited with the Chairman on the day of the Meeting or any adjournment thereof, the instrument will not be effective with respect to any matter on which a vote has already been cast pursuant to such proxy.

### **Solicitation of Proxies**

The cost of this solicitation of proxies will be borne by the Corporation. The Corporation will reimburse brokers, custodians, nominees and fiduciaries for the proper charges and expenses incurred in forwarding this Management Information Circular and related materials to beneficial owners of Preferred Shares and Class A Shares. In addition to solicitation by mail, officers and directors of the Corporation may, without additional compensation, solicit proxies personally or by telephone. The Corporation has also engaged RBC DS to form a soliciting dealer group to solicit proxies from shareholders for the Meeting. The Corporation will pay RBC DS and properly designated soliciting dealers the fees described under "Expenses of the Proposal".

### **Advice to Beneficial Holders**

The information set forth in this section is of significant importance to beneficial holders of Preferred Shares and Class A Shares, as the shares are held in the name of CDS & Co., the nominee of The Canadian Depository for Securities Limited, and not in the name of the beneficial holders of the shares. The Corporation utilizes the book-entry only system of registration and thus shareholders do not hold their shares in their own name ("Beneficial Shareholders"). Beneficial Shareholders should note that only proxies deposited by shareholders whose names appear on the records of the Corporation as the registered holders of shares can be recognized and acted upon at the Meeting. Shares held by brokers or their nominees through CDS & Co. can only be voted upon the instructions of

the Beneficial Shareholder. Without specific instructions, CDS & Co. and brokers/nominees are prohibited from voting shares for their client(s). The Corporation does not know for whose benefit the shares registered in the names of CDS & Co. are held. Therefore, Beneficial Shareholders cannot be recognized at the Meeting for purposes of voting their shares in person or by way of proxy unless they comply with the procedure designated below.

Applicable regulatory policy requires intermediaries/brokers to seek voting instructions from Beneficial Shareholders in advance of shareholders' meetings. Every intermediary/broker has its own mailing procedures and provides its own return instructions, which should be carefully followed by Beneficial Shareholders in order to ensure that their shares are voted at the Meeting. Often, the form of proxy supplied to a Beneficial Shareholder by its broker is identical to that provided to registered shareholders. However, its purpose is limited to instructing the registered shareholders how to vote on behalf of the Beneficial Shareholders. The majority of brokers now delegate responsibility for obtaining instructions from clients to ADP Investor Communications ("ADP"). ADP typically prepares a voting instruction form which it mails to the Beneficial Shareholders and asks Beneficial Shareholders to complete and return directly to ADP. ADP then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of shares to be represented at the Meeting. **A Beneficial Shareholder receiving a voting instruction form cannot use that form to vote shares directly at the Meeting; the voting instruction form must be returned to ADP well in advance of the Meeting in order to have the shares voted.**

**If you are a Beneficial Shareholder and wish to vote in person at the Meeting, please contact your broker or agent well in advance of the Meeting to determine how you can do so.**

If you are a holder of Preferred Shares or Class A Shares and wish to continue your investment in the Corporation, you should submit a voting instruction form prior to 5:00 p.m. (Toronto time) on May 14, 2003 voting in favour of the Special Resolution.

#### **Approval by the Board of Directors**

The contents and mailing to shareholders of this Management Information Circular have been approved by the Board of Directors of the Corporation.



John P. Mulvihill  
President

## APPENDIX I

### SPECIAL RESOLUTION OF THE SHAREHOLDERS

#### BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:

1. The Articles of the Corporation be amended by deleting subparagraph (g)(ix) contained in Part D of the Articles of the Corporation and substituting the following:  
“(ix) “Redemption Date” means November 1, 2010;”.
2. The Articles of the Corporation be amended by adding the provisions set out on Schedule A hereto after Section 15 of the Preferred Share provisions in order to provide holders of Preferred Shares with an additional retraction right on June 30, 2003 and in order to provide the Corporation with an additional redemption right in respect of Preferred Shares to the extent that unmatched Class A Shares are retracted pursuant to the additional retraction right to be provided to holders of the Class A Shares.
3. The Articles of the Corporation be amended by adding the provisions set out on Schedule B hereto after Section 15 of the Class A Share provisions in order to provide holders of Class A Shares with an additional retraction right on June 30, 2003 and in order to provide the Corporation with an additional redemption right in respect of Class A Shares to the extent that unmatched Preferred Shares are retracted pursuant to the additional retraction right to be provided to holders of the Preferred Shares.
4. The Articles of the Corporation be amended by making the other incidental changes to the Preferred Share and Class A Share provisions as set out on Schedule C hereto in order to make conforming changes that reflect the change of the Redemption Date and the addition of the additional retraction right and additional redemption right referred to in this special resolution.
5. The Corporation be and is hereby authorized to make all filings necessary for the issuance of a Certificate of Amendment under the Act to give effect to this special resolution.
6. The directors and officers of the Corporation be and they are hereby authorized and directed to take such action and to execute and deliver all such documentation as may be necessary or desirable for the implementation of this special resolution.
7. Notwithstanding the provisions hereof, the directors of the Corporation may revoke this special resolution at any time prior to the issuance of a Certificate of Amendment under the *Business Corporations Act* (Ontario) giving effect hereto without further approval of the shareholders of the Corporation.

## SCHEDULE A

### **“16. Additional Retraction**

(a) Each holder of Preferred Shares shall be entitled, subject to and upon compliance with the provisions hereof, to surrender at any time prior to May 30, 2003 all or any part of the Preferred Shares registered in the name of such holder for redemption by the Corporation on June 30, 2003 (the “Additional Retraction Date”) with payment to be made on June 30, 2003 (the “Additional Retraction Payment Date”) at a price per Preferred Share equal to the Preferred Share Redemption Price as of May 30, 2003.

(b) The provisions of Sections 9, 10, 11 and 12 shall apply to a redemption on the Additional Retraction Date as provided for in Section 16(a) with the necessary modifications.

### **17. Additional Redemption**

(a) The Preferred Shares shall be redeemable at the option of the Corporation on the Additional Retraction Date to the extent that unmatched Class A Shares have been redeemed under Section 16 of the Class A Share provisions. Any such Preferred Shares shall be redeemed by the Corporation on the Additional Retraction Date on the payment by the Corporation of the Preferred Share Redemption Price as of May 30, 2003 in respect of each Preferred Share to be redeemed. If less than all of the outstanding Preferred Shares are to be redeemed pursuant to this Section 17, the Preferred Shares to be so redeemed shall be redeemed pro rata or in such other manner as the Board of Directors of the Corporation in their sole discretion shall by resolution determine.

(b) In connection with a redemption of Preferred Shares in accordance with this Section 17, the Corporation shall, on or prior to June 15, 2003, provide notice to each person who is a registered holder of Preferred Shares to be redeemed of the intention of the Corporation to redeem such Preferred Shares. Such notice shall set out the date for redemption and the manner and place or places within Canada at which such Preferred Shares will be redeemed. On or prior to the Additional Retraction Payment Date, the Corporation shall pay or cause to be paid to or to the order of the registered holders of the Preferred Shares an amount per Preferred Share being redeemed equal to the Preferred Share Redemption Price as of May 30, 2003.

(c) The provisions of Sections 7(c) and 7(d) shall apply to a redemption of Preferred Shares as provided for in Section 17(a) on the Additional Retraction Date with the necessary modifications.”

## SCHEDULE B

### “16. Additional Retraction

(a) Each holder of Class A Shares shall be entitled, subject to and upon compliance with the provisions hereof, to surrender at any time prior to May 30, 2003 all or any part of the Class A Shares registered in the name of such holder for redemption by the Corporation on the Additional Retraction Date, with payment to be made on the Additional Retraction Payment Date at a price per Class A Share equal to the Class A Share Redemption Price as of May 30, 2003.

(b) The provisions of Sections 9, 10, 11 and 12 shall apply to a redemption on the Additional Retraction Date as provided for in Section 16(a) with the necessary modifications.

### 17. Additional Redemption

(a) The Class A Shares shall be redeemable at the option of the Corporation on the Additional Retraction Date to the extent that unmatched Preferred Shares have been redeemed under Section 16 of the Preferred Share provisions. Any such Class A Shares shall be redeemed by the Corporation on the Additional Retraction Date on the payment by the Corporation of the Class A Share Redemption Price as of May 30, 2003 in respect of each Class A Share to be redeemed. If less than all of the outstanding Class A Shares are to be redeemed pursuant to this Section 17, the Class A Shares to be so redeemed shall be redeemed pro rata or in such other manner as the Board of Directors of the Corporation in their sole discretion shall by resolution determine.

(b) In connection with a redemption of Class A Shares in accordance with this Section 17, the Corporation shall, on or prior to June 15, 2003, provide notice to each person who is a registered holder of Class A Shares to be redeemed of the intention of the Corporation to redeem such Class A Shares. Such notice shall set out the date for redemption and the manner and place or places within Canada at which such Class A Shares will be redeemed. On or prior to the Additional Retraction Payment Date, the Corporation shall pay or cause to be paid to or to the order of the registered holders of the Class A Shares an amount per Class A Share being redeemed equal to the Class A Share Redemption Price as of May 30, 2003.

(c) The provisions of Sections 7(c) and 7(d) shall apply to a redemption of Class A Shares as provided for in Section 17(a) on the Additional Retraction Date with the necessary modifications.”

## SCHEDULE C

1. The reference in Section 6 of the Preferred Share provisions to “Section 8” is deleted and substituted with a reference to “Sections 9 and 16”.
2. The reference in Section 6 of the Class A Share provisions to “Section 9” is deleted and substituted with a reference to “Sections 9 and 16”.
3. The reference in Section 7 of the Preferred Share provisions to “November 1, 2003 (the “Redemption Date”)” is deleted and substituted with a reference to the “Redemption Date”.

**APPENDIX II**  
**ADDITIONAL INFORMATION**  
**MANAGEMENT OF THE CORPORATION**

**Directors and Officers**

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

<u>Name and Municipality of Residence</u>	<u>Office</u>	<u>Principal Occupation</u>
JOHN P. MULVIHILL . . . . . Toronto, Ontario	President, Secretary and Director	Chairman and President, MCM
DAVID N. MIDDLETON . . . . . Toronto, Ontario	Chief Financial Officer and Director	Vice President, Finance, MCM
ROBERT W. KORTHALS . . . . . Toronto, Ontario	Director	Corporate Director
C. EDWARD MEDLAND . . . . . Toronto, Ontario	Director	President, Beauwood Investments Inc. (private investment company)
MICHAEL M. KOERNER . . . . . Toronto, Ontario	Director	Corporate Director

During the past five years, all of the directors and officers have held the principal occupations noted opposite their respective names, or other occupations with their current employer or a predecessor company.

The independent directors of the Corporation are paid an annual fee of \$7,000 and a fee for each board meeting attended of \$500.

**The Manager**

Pursuant to a management agreement dated October 17, 1996 (the “Management Agreement”), Mulvihill is the manager of the Corporation and, as such, is responsible for providing or arranging for required administrative services to the Corporation. Mulvihill is a wholly-owned subsidiary of MCM.

The name and municipality of residence of each of the directors and officers of Mulvihill are as follows:

JOHN P. MULVIHILL . . . . . Toronto, Ontario	President, Secretary and Director
DAVID N. MIDDLETON . . . . . Toronto, Ontario	Treasurer and Director
JOHN H. SIMPSON . . . . . Toronto, Ontario	Director

Mulvihill receives fees for its services under the Management Agreement equal to an annual rate of 0.10% of the Corporation’s net asset value calculated and payable monthly, plus applicable taxes and is reimbursed for all reasonable costs and expenses incurred by Mulvihill on behalf of the Corporation. In addition, Mulvihill and each of its directors, officers, employees and agents will be indemnified by the Corporation for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against Mulvihill or any of its officers, directors, employees or agents in the exercise of its duties as manager, except those resulting from Mulvihill’s willful misconduct, bad faith, negligence or breach of its obligations under the Management Agreement.

Mulvihill may resign upon 60 days’ notice to shareholders and the Corporation or such lesser notice as the Corporation may accept. If Mulvihill resigns it may appoint its successor, but its successor must be approved by shareholders unless it is an affiliate of Mulvihill. If Mulvihill is in material default of its obligations under the Management Agreement and such default has not been cured within 30 days after notice of same has been given to Mulvihill, the Corporation shall give notice thereof to shareholders and the shareholders may remove Mulvihill and appoint a successor manager.

### **The Investment Manager**

MCM is the Corporation's investment manager. MCM is controlled by John P. Mulvihill. MCM manages the Corporation's investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Corporation pursuant to an investment management agreement (the "Investment Management Agreement") made between the Corporation and MCM dated October 17, 1996.

The services provided by MCM pursuant to the Investment Management Agreement include the making of all investment decisions for the Corporation and managing the Corporation's call and put option writing, all in accordance with the investment objectives, strategy and criteria of the Corporation. Decisions as to the purchase and sale of securities comprising the Corporation's investment portfolio and as to the execution of all portfolio and other transactions are made by MCM.

MCM receives fees for its services under the Investment Management Agreement equal to an annual rate of 0.80% of the Corporation's net asset value calculated and payable monthly, plus applicable taxes and is reimbursed for all reasonable costs and expenses incurred by MCM on behalf of the Corporation. In addition, MCM and each of its directors, officers, employees and agents will be indemnified by the Corporation for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against MCM or any of its officers, directors, employees or agents in the exercise of its duties as investment manager, except those resulting from MCM's willful misconduct, bad faith, negligence or breach of its obligations under the Investment Management Agreement.

## APPENDIX III

### RIGHT TO DISSENT

Pursuant to the provisions of Section 185 of the OBCA, a holder (a “shareholder”) of Preferred Shares or Class A Shares is entitled to dissent and be paid the fair value of such shares if the shareholder objects to the Special Resolution and such Special Resolution becomes effective. A shareholder may dissent only with respect to all of the shares of a class held by the shareholder on behalf of any one beneficial owner and registered in the shareholder’s name. However, a shareholder is not entitled to dissent from the Special Resolution with respect to any shares beneficially owned by one owner if the shareholder votes any such shares beneficially owned by that owner in favour of the Special Resolution.

In order to dissent a shareholder must send a written objection (an “Objection Notice”) to the Special Resolution to the Corporation on or before the date of the Special Meeting. A vote against the Special Resolution or an abstention in respect thereof does not constitute such an Objection Notice, but a shareholder need not vote his or her shares against the Special Resolution in order to dissent in respect of the Special Resolution. Within 10 days following the date of the Meeting, the Corporation will deliver to each shareholder who has filed an Objection Notice in respect of the Special Resolution, at the address specified for such purpose in such shareholder’s Objection Notice, a notice stating that the Special Resolution has been adopted (the “Corporation Notice”). A Corporation Notice is not required to be sent to any shareholder who voted for the Special Resolution or who has withdrawn an Objection Notice.

Within 20 days after receipt by a shareholder of the Corporation Notice or, if no Corporation Notice is received by the dissenting shareholder, within 20 days after such shareholder learns that the Special Resolution has been adopted, the dissenting shareholder is required to send a written notice to the Corporation containing the shareholder’s name and address, the number of shares held in respect of which such shareholder dissents and a demand for payment of the fair value of such shares (the “Demand for Payment”). Within 30 days thereafter, the shareholder must send the share certificates representing such shares to the Corporation. Such share certificates will be endorsed by the Corporation with a notice that the holder is a dissenting shareholder and will be returned to the dissenting shareholder. A shareholder who fails to send the Objection Notice or Demand for Payment or fails to forward share certificates, in each case within the time required, loses any right to make a claim for payment of the fair value of such shareholder’s shares.

On sending a Demand for Payment to the Corporation, a dissenting shareholder ceases to have any rights as a shareholder except the right to be paid the fair value of his or her shares unless the dissenting shareholder withdraws the Demand for Payment before the Corporation sends an Offer to Purchase as described below or the Special Resolution does not become effective, in which case such shareholder’s rights are reinstated as of the date such Demand for Payment was sent. If a shareholder fails to comply with each of the steps required to dissent effectively, the rights, privileges, restrictions and conditions attaching to such shareholder’s shares will be amended in accordance with the Special Resolution.

Not later than seven days after the later of the day on which the action approved by the Special Resolution becomes effective and the date the Corporation receives the Demand for Payment, the Corporation will send to each dissenting shareholder a written offer (the “Offer to Pay”) to pay for the shares which are the subject of the Objection Notice in an amount considered by the Board of Directors of the Corporation to be the fair value of such shares as of the close of business on the day before the day on which the action approved by the Special Resolution becomes effective accompanied by a statement showing how the fair value was determined. Dissenting shareholders who accept the Offer to Pay will be paid by the Corporation within ten days of acceptance by the dissenting shareholders of such offer, provided share certificates representing the shares held by such dissenting shareholder have been delivered to the Corporation. The Offer to Pay lapses if the Corporation does not receive an acceptance of the Offer to Pay within 30 days after the date on which the Offer to Pay was made.

If the Corporation fails to make the Offer to Pay or a dissenting shareholder fails to accept the Offer to Pay within the time limit prescribed therefor, the Corporation may apply under the OBCA to a court to fix a fair value for the shares within 50 days after the day on which the action approved by the Special Resolution becomes effective or within such further period as the court may allow.

Upon any application to court by the Corporation, the Corporation shall notify each affected dissenting shareholder of the date, place and consequences of the application and of such dissenting shareholder's right to appear and be heard in person or by counsel. If the Corporation fails to make such application, the dissenting shareholder has the right to so apply within a further period of 20 days or within such further period as a court may allow. All dissenting shareholders whose shares have not been purchased by the Corporation will be joined as parties to the application and will be bound by the decision of the court. The court may determine whether any person is a dissenting shareholder who should be joined as a party and the court will fix a fair value for the shares of all dissenting shareholders.

Provided that the Special Resolution becomes effective, a shareholder who complies with each of the steps required to dissent effectively is entitled to be paid the fair value of the shares in respect of which such shareholder has dissented. Such fair value as determined by the court may be more than, less than or equal to the consideration to be received under the Offer to Pay.

The foregoing is a summary only of the rights of dissenting shareholders and is qualified in its entirety by the full text of Section 185 of the OBCA. Any shareholder desiring to exercise a right to dissent should seek legal advice since failure to comply strictly with the provisions of Section 185 may prejudice that right.