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Asset Categories in which Baskin Financial invests – Definitions

COMMON SHARES

Securities that represent ownership in a corporation. Holders of common shares have a right to vote on the election of corporate directors. Dividends on common shares are not fixed but are determined by the board of directors of the corporation; they are generally tied to the profitability of the corporation. There is no fixed income portion of a common share.

In the event of bankruptcy or liquidation, common shareholders are on the bottom of the priority ladder, with rights to a corporation's assets only after secured lenders, bondholders, preferred shareholders and other debt holders including unsecured lenders have been paid in full. This makes common stock riskier than debt or preferred shares.

DIFFERENT CLASSES OF COMMON SHARES or DUAL CLASS SHARES Corporations can customize the characteristics of common share classes. For example, a corporation may want voting power to remain with a certain group of investors; in this case, different classes of common shares could be given different voting rights. One class of common shares could be held by a select group, which shares are given ten votes per share, while a second class is issued to the majority of investors, which class is given one vote per share. Many investors will refuse to buy shares in corporations that have dual classes of shares due to concerns regarding unequal voting power.

When there is more than one class of shares, the classes are traditionally designated as Class A and Class B shares.

DOMESTIC COMMON SHARES are shares in corporations located in Canada. These shares present no foreign currency risk to Canadian investors.

FOREIGN COMMON SHARES are shares in corporations located in any country other than Canada. If these shares are denominated in other than Canadian dollars (which is most likely), they will carry foreign currency risk for Canadian investors. These shares may also carry political/sovereign risk depending on where the issuing corporation is located. Tax treatment of foreign common shares differs from the treatment of domestic common shares.

PREFERRED SHARES

Securities that represents ownership in a corporation with a higher claim on the assets and earnings of the corporation than common shares. In the event of bankruptcy or liquidation, preferred shareholders have rights to a corporation's assets after its secured lenders but before its common shareholders and unsecured creditors.

Preferred shares generally have a fixed dividend (and accordingly less potential for appreciation than common shares). The dividend on preferred shares must be paid before any dividends are payable to common shareholders. Preferred shares usually do not have voting rights. Preferred shares may also be “callable”, meaning that the corporation has the right to purchase the shares from shareholders at any time for any reason (usually for a premium).

The attributes of preferred shares are specific to each corporation. However, it is generally correct to think of preferred shares as financial instruments with characteristics of both debt (fixed dividends) and equity (potential appreciation), with market risk somewhere between bonds and common shares.

CUMULATIVE VS. NON-CUMULATIVE DIVIDENDS If preferred shares have dividends that are cumulative, then any unpaid dividends from prior periods must be paid to the holders of these preferred shares before common shareholders are entitled to receive any dividends. If the dividends on the preferred shares are not cumulative, then preferred shareholders will receive only the latest period dividends before common shareholders are paid their dividends. For this reason, preferred shares with cumulative dividends are preferred by investors interested in income over those with non-cumulative dividends.

PERPETUAL PREFERRED SHARES are a type of preferred share that has no maturity date. Issuers of perpetual preferred shares always retain redemption privileges on such shares. Issued perpetual preferred shares will continue paying dividends indefinitely until redemption.

VOTING VS. NON-VOTING Most preferred shares do not have voting rights, but it is possible for preferred shares to be issued with the right to vote to elect board members, and even other rights to vote.

DOMESTIC PREFERRED SHARES are shares in corporations located in Canada. These shares present no foreign currency risk to Canadian investors.

FOREIGN PREFERRED SHARES are shares in corporations located in any country other than Canada. If these shares are denominated in other than Canadian dollars (which is most likely), they will carry foreign currency risk for Canadian investors. These shares may also carry political/sovereign risk depending on where the issuing corporation is located. Tax treatment of foreign preferred shares differs from the treatment of domestic preferred shares

BONDS

Securities documenting a loan (the “bond principal”) by the investor to a government or corporation (the “issuer”) for a specified period of time, to be repaid on a specified date (the “maturity date”) at a specified rate of interest (the “coupon”). Bonds are used by governments and corporations to finance a variety of projects and activities.

In the event of a bankruptcy or liquidation, holders of corporate bonds are repaid before preferred and common shareholders and unsecured creditors, but generally after secured lenders. .

Two features of a bond - credit quality and duration - are the principal determinants of a bond's interest rate. Yield and price are inversely related for fixed income bonds.

GOVERNMENT BONDS are debt securities issued by a government, whether federal, provincial or foreign.

Real Return Bonds are government bonds paying a rate of return that is adjusted for inflation as specified by the consumer price index. Unlike bonds with a fixed rate of return, these bonds ensure that purchasing power of the return is maintained regardless of the rate of inflation.

Domestic Government Bonds are bonds issued by the federal or a provincial government in Canada. If they are issued in Canadian dollars (which is usually the case) they carry no foreign currency risk to investors and the lowest amount of credit risk among all classes of bonds.

Foreign Government Bonds are bonds issued by foreign governments. Usually issued in a foreign currency, they carry foreign currency risk, and may entail credit risk and political/sovereign risk depending on the creditworthiness of the government that issues them and the stability of that government.

CORPORATE BONDS are debt securities issued by a corporation.

Convertible vs non-Convertible Bonds Convertible bonds can be converted into a predetermined amount of the corporation's equity at certain times during its life, usually at the discretion of the bondholder. This is not the case for non-convertible bonds.

Domestic Corporate Bonds are issued by corporations domiciled in Canada. If they are issued in Canadian dollars they carry no currency risk for Canadian investors.

Foreign Corporate Bonds are issued by corporations domiciled in a country other than Canada. If they are issued in a currency other than the Canadian dollar, they carry currency risk and may entail political risk as well as credit risk.

REAL ESTATE INVESTMENT TRUSTS (OR REITS)

Investment trusts invest in real estate directly, either through properties or mortgages and trades units, similar to shares, on an exchange. Income trusts target holding assets which will generate a steady flow of income, which is largely passed on to the unit holders. The main attraction of income trusts is their ability to generate constant cash flows for investors.

REITS are spared double taxation in Canada.

CASH AND EQUIVALENTS

Baskin Financial uses a number of savings or money market accounts offered by CDIC insured deposit takers.

These money market accounts are offered or guaranteed by a bank or financial institution; the deposits are invested in short term, highly rated government and corporate securities. Interest is tied to current short term (less than 90 day) interest rate

Each of these accounts is insured by the Canadian Deposit Insurance Corporation to an aggregate maximum of \$100,000 (inclusive of other amounts held at the same institution).

These accounts carry minimum risk and pay a floating rate income stream that follows the Bank of Canada prime rate.

Clients may also buy three other kinds of instruments which have maturities of less than one year and carry minimum risk:

Bankers Acceptances or B.A.s are credit investments of less than one year created by a non-financial corporation and guaranteed by a Canadian chartered bank. Accordingly, the credit quality of the B.A. is the same as that of the bank that backstops it, rather than that of the issuing corporation. B.A.s trade based on yield, which is normally higher than a treasury bill (federal or provincial) of the same maturity due to the fact that the banks have a lower credit rating than the governments. B.A.s are considered to be low risk instruments. They are more liquid than term deposits and G.I.C.s as they are traded in a very liquid secondary market and can be sold before maturity on short notice.

Term Deposits are deposits held at a Canadian chartered bank with fixed terms. These are generally short-term with maturities ranging anywhere from a month to a few years. The money can only be withdrawn after the term has ended or by giving a predetermined number of days notice (and, often paying a penalty in terms of interest earned).

Since the money is tied up for a specified period, term deposits generally provide a higher rate of return than a demand deposit or a treasury bill of the same duration.

Guaranteed Investment Certificates (G.I.C.s) are deposit investment securities sold by Canadian banks and trust companies. They are often bought for retirement plans because they provide a low-risk fixed rate of return. The principal is at risk only if the bank defaults. They are insured by the CDIC for up to \$100,000.

G.I.C.s generally offer a return that is slightly higher than T-bills, however, they may not be fully liquid or transferrable.

Note: The foregoing does not include a discussion of tax treatment for each investor. Tax consequences for each investor will depend on individual circumstances. Please contact Baskin Financial or your accountant to discuss your particular tax consequences.