



Ontario  
Securities  
Commission

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**VIA SEDAR**

February 1, 2002

Fraser Milner Gasgrain LLP

**Attention: Heather Zordel or Dan Dishy**

Dear Sirs/Mesdames:

**Re: Tuscarora Energy Growth Fund Inc.  
MRRS Exemptive Relief Application from certain investment restrictions in National  
Instrument 81-102 – Mutual Funds ("NI 81-102")  
SEDAR Project #413437**

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By an application dated January 4, 2002 as supplemented by a letter dated January 23, 2002 (the "Application"), you applied on behalf of Tuscarora Energy Growth Fund Inc. (the "Fund") to the Canadian securities regulatory authority or regulator (the "Decision Maker") in each of the provinces and territories in Canada, except Quebec (the "Jurisdictions") for an exemption pursuant to subsection 19.1 of NI 81-102 from the applicability of sections 2.2(1)(a), 2.2(1)(b), 2.4, 2.6(d) and 2.6(g) of NI 81-102 (the "Subject Provisions").

In the Application, the Fund and Front Street Capital Inc., manager of the Fund, have represented to the Decision Makers that:

1. The Fund is a corporation incorporated under the *Canada Business Corporations Act* by Articles of Incorporation dated November 1, 2001. The Fund is a mutual fund within the meaning of the securities legislation of the Jurisdictions.
2. The Fund is as a labour-sponsored venture capital corporation under the *Income Tax Act* (Canada) (the "Federal Tax Act"), effective January 1, 2002. As such, the Fund is the first federally-incorporated labour-sponsored venture capital corporation to have been established in recent years.
3. As required by the Federal Tax Act, the sponsor of the Fund is The Newspaper Guild of Canada/Communication Workers of America.
4. A preliminary prospectus for the Fund dated November 2, 2001 has been filed with the Decision Makers. An amended and restated preliminary prospectus dated November 21,

2001 was also filed with each of the Decision Makers and also with Quebec. The Fund will, upon the issuance of a receipt for a (final) prospectus, distribute securities in every province and territory of Canada.

5. The Fund's investment objective is to achieve long-term capital appreciation by making eligible investments in a diversified portfolio of securities of small and medium-sized business entities engaged in the natural resources industry which have prospects for future growth. The Fund will maintain a focus primarily in the energy industry including oil and gas production, drilling and servicing, alternative energy companies and power companies.
6. The Fund will not be able to comply with the Subject Provisions in light of its investment objectives and investment strategy which is governed by the investment restrictions set out in the Federal Tax Act. The Federal Tax Act operates to limit the investments of the Fund to "eligible investments" which are, generally speaking, investments in small or medium sized business and tend to be held for a substantial period of time.
7. The Fund typically will invest in an investment representing greater than 10% of the voting securities or equity securities of an issuer. Due to the early stage nature of eligible businesses in which the Fund is permitted to invest by the Federal Tax Act, an investment in compliance with section 2.2(1)(a) of N1 81-102 is often not appropriate since it may not sufficiently capitalize the business to warrant the investment.
8. The Fund may, in limited circumstances, acquire control of an eligible business but only in accordance with the Federal Tax Act.
9. The majority of investments in eligible businesses made by the Fund will, by their nature, be illiquid investments due to the early stage nature of the businesses in which it invests.
10. Given the inherent benefits associated with structuring an investment in a small to medium sized business through staggered advances, it is in the best interest of the shareholders of the Fund to employ such investment techniques.
11. The Federal Tax Act permits investments in "qualifying debt obligations" of an eligible business, which form of investment is integral to the investment process of the Fund. Convertible debt structures are often used for investments in illiquid companies as a method of mitigating some of the risks associated with investments of this type.
12. The Federal Tax Act permits an investment in a guarantee in respect of a debt obligation that would, if the debt obligation had been issued to the Fund at the time the guarantee was provided, have been a qualifying debt obligation issued by the eligible business.
13. In any financial year the Fund is required to redeem Class A shares having an aggregate redemption price up to 20% of the net asset value of the applicable series of Class A shares. The Fund intends to request an exemption from securities legislation to suspend redemption when an aggregate redemption price exceeds 20% of the net asset value of the applicable series of Class A shares. If there is any suspended redemption requests as a

result of this 20% threshold, the redemption request will be processed in the following financial year, according to the Federal Tax Act.

This letter confirms that, based upon the information and representations contained in the Application, the Decision Makers hereby exempt the Fund from the following sections of NI 81-102:

1. Section 2.2(1)(a);
2. Section 2.2(1)(b);
3. Section 2.4 provided the Fund maintains, at all times, sufficient assets in liquid assets to enable it to honour in any financial year of the Fund all potential redemption of its securities disclosed as available in any prospectus of the Fund;
4. Section 2.6(d) provided that the terms and conditions of the Fund's obligations to make additional contributions are known at the time of the original investment; and
5. Section 2.6(g).

The relief provided herein is also conditional upon:

1. There being adequate risk disclosure in any prospectus of the Fund. The cover page of the prospectus must disclose the risk that the Fund is a highly speculative investment and the Fund is suitable for investors who have the capacity to absorb a loss of some or all of their investments;
2. The Fund complying with the Federal Tax Act;
3. The Fund complying with all other applicable provisions of NI 81-102 from which the Fund has not been exempted;
4. In Alberta, the securities of the Fund being sold only by investment dealers; and
5. In Ontario, the securities of the Fund being sold only by dealers, who meet the requirements set out in Ontario Rule 31-502 to sell labour sponsored investment funds.

Yours truly,

Paul Dempsey  
Paul Dempsey  
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