

**IN THE MATTER OF
THE SECURITIES LEGISLATION OF
ALBERTA, BRITISH COLUMBIA, MANITOBA,
NEW BRUNSWICK, NEWFOUNDLAND AND LABRADOR, NOVA SCOTIA,
PRINCE EDWARD ISLAND, SASKATCHEWAN, YUKON, ONTARIO
NORTHWEST TERRITORIES AND NUNAVUT**

AND

**IN THE MATTER OF
THE MUTUAL RELIANCE REVIEW SYSTEM FOR
EXEMPTIVE RELIEF APPLICATIONS**

AND

IN THE MATTER OF

AND WHEREAS the Fund plans to offer to the public Class A Shares, Series III of the Fund; the Prior Decision does not provide relief for the Fund to make certain payments to participating dealers in connection with the proposed distribution of Class A Shares, Series III;

AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (the "System"), the Ontario Securities Commission is the principal regulator for this application;

AND WHEREAS the Fund and Front Street Capital Inc. (the "Manager"), the manager of the Fund, have represented to the Decision Makers as follows:

- 1. The Fund is a corporation incorporated under the Canada Business Corporations Act. It is registered as a labour-sponsored venture capital corporation under the Income Tax Act (Canada).**
- 2. The Fund is a mutual fund as defined in the legislation of each of the Jurisdictions. The Fund filed a prospectus dated January 31, 2002 (the "Prospectus") in each of the Jurisdictions in connection with the offering to the public of Class A Shares, Series I and Class A Shares, Series II in the capital of the Fund. An amendment to the Prospectus dated July 3, 2002 (the "Amendment"), in a form of a slipsheet, has been filed in each of the Jurisdictions in connection with the proposed offering to the public of Class A Shares, Series III (collectively, the Class A Shares@).**
- 3. The authorized capital of the Fund consists of an unlimited number of Class A Shares and an unlimited number of Class B Shares in the capital of the Fund. As at June 21, 2002, there were 875,837.121 Class A Shares, Series I , 483,050.412 Class A Shares, Series II and 100 Class B Shares outstanding.**
- 4. The Manager and The Newspaper Guild of Canada/Communications Workers of America, as the sponsor, formed and organized the Fund.**
- 5. The Fund pays directly to participating dealers certain costs associated with the distribution of its Class A Shares, Series I and Class A Shares, Series II. These costs are:**
 - (i) with respect to the distribution of Class A Shares, Series I and Class A Shares, Series II,**
 - a. a sales commission of 6% of the selling price for each Class A Share, Series I or Series II, subscribed for (the "6% Sales Commission"), and**

- (i) defer and amortize the amount paid or payable in respect of the 6% Sales Commission to retained earnings on a straight line basis over eight years,**
 - (ii) defer and amortize the amount paid or payable in respect of the Trailing Commission to income on a straight line basis over eight years, and**
 - (iii) expense the Series I and Series II Service Fee, the Series III Service Fee and Co-op Expenses in the fiscal period when incurred.**
- 11. Due to the structure of the Fund, the most tax efficient way for the Distribution Costs to be financed is for the Fund to pay them directly.**
- 12. For Class A Shares, Series I and Class A Shares, Series II, gross investment amounts will be contributed to the Fund in respect of each subscription. This is to ensure that the entire subscription amount contributed by the investor is counted for the purpose of the applicable federal tax credits in connection with the purchase of Class A Shares, Series I and Class A Shares, Series II. For Class A Shares, Series III, investment amounts, net of commission paid by the investor directly, will be contributed to the Fund in respect of each subscription.**
- 13. The Manager, or its affiliate, is the only member of the organization of the Fund, other than the Fund, available to pay the Distribution Costs. The Manager does not have sufficient resources to pay the Distribution Costs and, unless the requested discretionary relief is granted, would be obliged to finance these costs through borrowings.**

14. Any loans obtained by the Manager to finance the Distribution Costs would result in the Manager increasing the management fee chargeable to the Fund, by an amount equal to the borrowing costs incurred by the Manager plus an amount required to compensate the Manager for any risks associated with fluctuations in the net asset value of the Fund and, therefore, fluctuations in the Manager's fee. Requiring compliance with section 2.1 of NI 81-105 would cause the expenses of the Fund to increase above those contemplated in the Amended Prospectus.
15. Requiring the Manager to pay the Distribution Costs while granting an exemption to other labour funds permitting such funds to pay similar Distribution Costs directly, would put the Fund at a permanent and serious competitive disadvantage with its competitors.
16. The Fund undertakes to comply with all other provisions of NI 81-105. In particular, the Fund undertakes that all Distribution Costs paid by it will be compensation permitted to be paid to participating dealers under NI 81-105.

AND WHEREAS under the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "Decision");

AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;

THE DECISION of the Decision Makers pursuant to the Legislation is that the Prior Decision is hereby revoked and replaced with the following Decision with effect as of, and from, the date hereof;

AND THE DECISION of the Decision Makers pursuant to section 9.1 of NI 81-105 is that the Fund shall be exempt from section 2.1 of NI 81-105 to permit the Fund to pay the Distribution Costs, provided that:

- (a) the Distribution Costs are otherwise permitted by, and paid in accordance with, NI 81-105;
- (b) the Distribution Costs are accounted for in the Fund's financial statements in the manner described in paragraph 10 above;
- (c) the summary section of the Amended Prospectus has full, true and plain disclosure describing the commission structure of Class A Shares, Series I

as a 10% initial sales commission, plus service fees after eight years. This section is placed within the first 10 pages of the Amended Prospectus;

- (d) the Amended Prospectus includes full, true and plain disclosure explaining the services and value that the participating dealers would provide to investors in return for the service fees payable to them;
- (e) the summary section of the Amended Prospectus includes full, true and plain disclosure explaining to investors that, for the Class A Shares, Series I and the Class A Shares, Series II:
 - (i) they pay the Sales Commissions indirectly, as the Fund pays these Sales Commissions using investors' subscription proceeds; and
 - (ii) a portion of the net asset value of the Fund is comprised of a deferred commission, rather than investment assets;
- (f) this Decision shall cease to be operative with respect to a Decision Maker on the date that a rule replacing or amending section 2.1 of NI 81-105 comes into force.

DATED July 24, 2002

Kerry D. Adams

Kerry D. Adams

Harold P. Hands

Harold P. Hands

Headnote:

A revocation and replacement order granted to labour sponsored investment fund corporation to permit it to pay certain distribution costs out of fund assets contrary to section 2.1 of National Instrument 81-105 Mutual Fund Sales Practices.

Statutes Cited:

Securities Act, R.S.O. 1990, c.S.5, as am. S.144

Rules Cited:

National Instrument 81-105 Mutual Fund Sales Practices