



Ontario
Securities
Commission

Commission Des
valeurs mobilières
de l'Ontario

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VIA SEDAR

September 27, 2002

McMillan Binch

Attention: John-David Humphreys

Dear Sirs/Mesdames:

**Re: Working Ventures II Technology Fund Inc. (the “Fund”)
Exemptive Relief Application dated December 31, 2001 pursuant to
National Instrument 81-102 Mutual Funds (“NI 81-102”)
- Application #004/02; SEDAR Project #412839**

By letter dated December 31, 2001 (the “Application”), you applied to the local securities regulatory authority or regulator (the “Decision Makers”) in each of the provinces and territories of Canada, except for Quebec, (the “Jurisdictions”) for an exemption on behalf of the Fund pursuant to subsection 19.1 of NI 81-102 from Part 7 of NI 81-102 in relation to incentive arrangements.

In the Application, the Fund represented the following:

1. The Fund is a corporation incorporated under the laws of Canada on October 27, 2000.
2. The Fund was registered, as of November 29, 2000, as a labour-sponsored investment fund corporation under the *Community Small Business Investment Funds Act* (Ontario) (the “CSBIF Act”) and is prescribed as a labour-sponsored venture capital corporation under the *Income Tax Act* (Canada).
3. The Fund is a mutual fund in each Jurisdiction and distributes securities in each Jurisdiction under a prospectus dated January 10, 2002 (together with any renewal thereof, the “Prospectus”).
4. Working Ventures Investment Services Inc. (the “Manager”) is the manager of the Fund pursuant to a management agreement entered into between the Manager and the Fund.

5. As is disclosed in the Prospectus, the Manager has established a Structured Property Interest Incentive Plan (the “Plan”) for eligible employees of the Manager (the “Participants”). The Fund has entered into a co-ownership agreement (the “Co-Ownership Agreement”) with the Manager dated January 9, 2001. The Plan will be implemented by the Fund once all necessary regulatory approvals for the Plan are received. On implementation, the Fund will convey to the Manager, as nominee for the Participants, an undivided co-ownership interest (the “Co-ownership Interest”) in each of the Fund’s investments in eligible businesses for purposes of the CSBIF Act (“Venture Assets”).
6. The purpose of the Plan is to attract and retain qualified personnel, to recognize Participants for their services, and to give Participants the opportunity to participate in the growth of the Venture Assets on a more tax effective basis through co-ownership interests in the investee companies.
7. The Co-Ownership Agreement provides that the size of the Co-ownership Interest in a particular Venture Asset is determined immediately prior to the sale of the particular Venture Asset based on a formula, set out therein, which is tied to the aggregate sale proceeds realized to date on the sale of Venture Assets.
8. Each time the Fund makes an investment in a Venture Asset, the Participants receive an aggregate Co-ownership Interest in such Venture Asset. Initially, the Participants’ Co-ownership Interest in a particular Venture Asset will be nominal (0.001%).
9. The aggregate cost of the Venture Assets will be approximately 70% of the capital raised by the Fund from the issue of its Class A shares, in compliance with the minimum investment requirements of the CSBIF Act.
10. The Participants’ Co-ownership Interest remains nominal until such time as the Fund has realized gains (net of realized losses) from the sale of Venture Assets equal to the aggregate cost of all the Fund’s retained Venture Assets plus the threshold rate of return (the “Threshold Rate”) described in paragraph 11 (the “Target”).
11. The Threshold Rate is a cumulative annual rate of return calculated on the basis of the average annual rate of return for five-year Government of Canada bonds plus 2% and is applied to the amount of the Fund’s cost of its portfolio of Venture Assets.
12. The Participants’ Co-ownership Interest in a particular Venture Asset that is sold at a time when the Fund has realized net gains in excess of the Target will have a value equal to 20% of the gain on the sale of the particular Venture Asset above the Target.
13. Immediately before the sale of any Venture Asset for cash or cash equivalents, each Participant’s individual co-ownership interest (a “Participant’s Interest”) will be computed as a percentage of the total ownership in such investment by the Senior Vice-President, Finance and Administration of the Manager.

14. After the calculation described in paragraph 13, the Fund's and each Participant's Interest will be partitioned and the Fund's and each Participant's Interest in the Venture Asset will be disposed of together.
15. The Fund will indemnify the Participants from liability arising solely from the ownership of an interest in the Venture Assets, but will not protect the Participants from any decline in value of a Venture Asset.
16. The incentive arrangements contemplated under the Co-Ownership Agreement and the Plan and set out in the Prospectus constitutes incentive fee arrangements for purposes of NI 81-102 and do not conform to the requirements of section 7.1 of NI 81-102.
17. The Fund is a labour-sponsored investment fund, and is set up to allow and encourage the public to invest in a vehicle that makes investments in Venture Assets. Investing in Venture Assets is substantially different from the type of investing generally undertaken by public mutual funds. This fundamental difference is recognized in subsection 240(2) of the Regulation under the *Securities Act* (Ontario), R.R.O. 1990, Regulation 1015, as amended (the "Regulation"), which exempts labour-sponsored investment funds in Ontario from a number of the provisions contained in a rule, policy or practice of the Ontario Securities Commission applicable to mutual funds, including NI 81-102.
18. The incentive arrangements of the Fund are appropriate in light of the nature of investing in Venture Assets and are similar to those commonly used in the venture capital industry, and in particular, in private venture capital funds and other labour-sponsored investment funds. The Fund believes that it is necessary to offer an incentive arrangement similar to those of other venture capital funds including labour-sponsored investment funds to ensure that the Fund attracts and retains the professional expertise necessary to carry out the investment operations in light of the Fund's investment mandate, which mandate is sanctioned by the Regulation under the Act.
19. The Prospectus of the Fund:
 - (a) fully discloses that the Manager considers the incentive arrangements contemplated under the Co-ownership Agreement and the Plan to be appropriate given the disclosed investment objectives and strategies of the Fund; and,
 - (b) provides an explanation of why the incentive arrangements contemplated under the Co-ownership Agreement and the Plan are appropriate for the Fund.

This letter confirms that, based on the information and representations contained in the Application, and for the purposes described in the Application, the Decision Makers hereby exempt the Fund from section 7.1 of NI 81-102 in respect of the incentive arrangements provided for under the Co-Ownership Agreement and the Plan, subject to the following conditions:

- (i) each day the net asset value of the Fund is calculated, an estimate of the performance fee based on realized and unrealized gains and losses must be accrued in accordance with paragraph 12 (assuming that all unrealized gains are treated as if realized) to take into account the performance fee obligations (the “Performance Fee Obligations”);
- (ii) the statement of net assets of the Fund includes as a liability the Performance Fee Obligations;
- (iii) changes in the amount of the Performance Fee Obligations are recognized in the statement of operations of the Fund as an expense; and
- (iv) the calculation of the management expense ratio includes the changes in the amount of the Performance Fee Obligations as described in condition (iii).

Yours truly,

"Paul A. Dempsey"

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