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August 16, 2007

Headnote

Mutual Reliance Review System for Exemptive Relief Applications - National Instrument 81-106, s.17.1 - Continuous Disclosure Requirements for Investment Funds

AIF requirement - A fund wants relief from subsection 9.2 of NI 81-106 that requires a fund that does not have a current prospectus as at its financial year end to prepare an annual information form - The issuers are short-term vehicles formed solely to invest their available funds in flow-through shares of resource issuers; the issuers' securities are not redeemable and there is no secondary trading in the issuers' securities; the issuers' other continuous disclosure documents will provide all relevant information necessary for investors to understand the issuers' business, financial position and future plans

Proxy voting record - A fund wants relief from subsections 10.3 and 10.4 of NI 81-106 that requires a fund to maintain a proxy voting record and annually to post the proxy voting record on its website - The issuers are short-term vehicles formed solely to invest their available funds in flow-through shares of resource issuers; the issuers' securities are not redeemable and there is no secondary trading in the issuers' securities; the issuers' other continuous disclosure documents will provide all relevant information necessary for investors to understand the issuers' business, financial position and future plans

Applicable British Columbia Provisions

National Instrument 81-106, ss. 9.2, 10.3, 10.4 and 17.1

In the Matter of
the Securities Legislation of
British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, New
Brunswick, Nova Scotia, Newfoundland and Labrador, Yukon,
Northwest Territories and Nunavut
(the Jurisdictions)

and

In the Matter of
the Mutual Reliance Review System for Exemptive Relief Applications

and

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In the Matter of
Front Street Capital 2004
(Front Street)

and

In the Matter of
Front Street Flow-Through 2006-I Limited Partnership
(the 2006 Partnership)

and

In the Matter of
Front Street Flow-Through 2007-I Limited Partnership
(the 2007 Partnership)

MRRS Decision Document

Background

The local securities regulatory authority or regulator (the Decision Maker) in each of the Jurisdictions has received an application from Front Street for a decision under the securities legislation of the Jurisdictions (the Legislation) on behalf of the 2006 Partnership and 2007 Partnership (collectively, the Partnerships) and each future limited partnership that is established from time to time in a similar manner by Front Street or an affiliate of Front Street acting as general partner and which is identical to the Partnerships in all respects which are material to this decision (the Future Partnerships and together with the Partnerships, the Partnership Filers) for an exemption from:

- (i) except in the case of 2006 Partnership, the requirement in National Instrument 81-106 – *Investment Fund Continuous Disclosure* (NI 81-106), Section 9.2 to file an annual information form (AIF);
- (ii) the requirement in NI 81-106, Section 10.3 to maintain a proxy voting record (Proxy Voting Record); and
- (iii) the requirements in NI 81-106, Section 10.4 to prepare a Proxy Voting Record on an annual basis for the period ending June 30 of each year, to post the Proxy Voting Record on the Partnerships' website no later than August 31 of each year, and to send the Proxy Voting Record to the limited partners of the Partnerships (Limited Partners) upon request,

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((i), (ii), and (iii) are herein referred to collectively as the Requested Relief).

Under the Mutual Reliance Review System for Exemptive Relief applications:

- (a) the Ontario Securities Commission is the principal regulator for this application; and
- (b) this MRRS decision document evidences the decision of each Decision Maker.

Interpretation

Defined terms contained in National Instrument 14-101 Definitions have the same meaning in this decision unless they are defined in this decision.

Representations

This decision is based on the following facts represented by Front Street:

1. Front Street is a partnership formed under the laws of Ontario. The principal office of Front Street is located in Toronto, Ontario.
2. Front Street or its affiliates are the only shareholders of the general partners of the Partnerships which are limited partnerships formed pursuant to the provisions of the *Limited Partnerships Act* (Ontario) on December 28, 2005 and November 8, 2006 respectively. The principal office of the Partnerships is located in Toronto, Ontario.
3. Front Street now owns, and is in the business of owning, shares of and controls corporations that act as general partners of limited partnerships, including the Partnership Filers.
4. The Partnerships were each formed with the primary investment objective of achieving capital appreciation for limited partners through investment in a diversified portfolio of flow-through common shares (Flow-Through Shares) of resource issuers (Resource Issuers) engaged primarily in oil and gas and mining exploration, development and production that will incur Canadian Exploration Expenses (CEE), including Canadian Renewable and Conservation Expenses (CRCE). Flow-Through Shares are issued on the basis that the Resource Issuer will agree to incur and renounce to the Partnership amounts equal to the subscription price of the Flow-Through Shares in expenditures in respect of resource exploration and development which qualify as CEE or as CRCE.

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5. Future Partnerships will be formed with primary investment objectives similar to the Partnerships.
6. The Partnerships received receipts dated February 13, 2006 and January 31, 2007 respectively, issued under MRRS by the Ontario Securities Commission on behalf of each of the provincial and territorial regulators with respect to (final) prospectuses dated February 9, 2006 and January 30, 2007 respectively, offering for sale up to 5,000,000 and 6,000,000 limited partnership units respectively of the Partnerships at a price of \$25 per unit. The Partnerships are reporting issuers in each of the Jurisdictions. No additional limited partnership units of the Partnerships have been or will be issued.
7. On or about June 30, 2008 in the case of the 2006 Partnership and on or about June 30, 2009 in the case of the 2007 Partnership, the Partnerships will be dissolved. Each of the Partnerships' general partners has been authorized to implement an exchange transaction (a Mutual Fund Rollover Transaction), prior to those dates, under which the respective Partnership would transfer its assets to an open-end mutual fund corporation, on a tax deferred basis, in exchange for mutual fund shares. If a Mutual Fund Rollover Transaction is not implemented by May 31, 2008 in the case of the 2006 Partnership or May 31, 2009 in the case of the 2007 Partnership or if a Partnership's limited partners determine by extraordinary resolution not to proceed with the Mutual Fund Rollover Transaction, the assets of the respective Partnership will be disposed of, debts and liabilities will be paid and the respective Partnership will be dissolved with the respective Partnership's limited partners receiving their pro rata share of the respective Partnership's net assets.
8. The Future Partnerships will be short term special purpose vehicles and are expected to be dissolved within 2 to 3 years of their formation.
9. Since its formation, the 2007 Partnership's activities have been limited to (i) completing the issue of the units under its prospectus, (ii) investing its available funds in accordance with its respective investment objectives and (iii) incurring expenses as described in its prospectus. The Future Partnerships will be structured in a similar fashion.
10. The general partners have exclusive authority to manage the operations and affairs of the Partnerships, to make all decisions regarding the business of the Partnerships and to bind the Partnerships. As a result, the general partners of the Partnerships have the general authority to apply on behalf of the Partnerships for the Requested Relief. The Future Partnerships will be structured in a similar fashion.

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11. The limited partnership units of the Partnerships are not and will not be listed or quoted for trading on any stock exchange or market and are also not redeemable by the Limited Partners. The same will hold for limited partnership units of the Future Partnerships.
12. Given the limited range of business activities conducted by the 2006 Partnership, the short duration of its existence and the nature of the investment, the Decision Makers granted relief from the requirements for preparation and distribution of an AIF to the 2006 Partnership on June 15, 2006.
13. Given the limited range of business activities conducted by the 2007 Partnership and the Future Partnerships, the short duration of their existence and the nature of the investment, the preparation and distribution of an AIF by the 2007 Partnership and the Future Partnerships will not be of any benefit to their limited partners and may impose a material financial burden on the 2007 Partnership and the Future Partnerships. Upon the occurrence of any material change to the 2007 Partnership and the Future Partnerships, Limited Partners and investors in Future Partnerships would receive all relevant information from the material change reports the 2007 Partnership and Future Partnerships are required to file with the Decision Makers.
14. As a result of the implementation of NI 81-106, investors purchasing units of the Partnerships were provided with a prospectus containing written policies on how the securities held by the Partnerships are voted (the Proxy Voting Policies), and had the opportunity to review the Proxy Voting Policies before deciding whether to invest in units of the Partnerships. Future Partnerships will provide similar disclosure in respect of their proxy voting policies.
15. The Proxy Voting Policies require that the Partnerships exercise their voting rights in respect of securities in a manner consistent with the best interests of the Limited Partners. The proxy voting policies for Future Partnerships will be structured in a similar fashion.
16. Given the short lifespan of the Partnership Filers, the production of a Proxy Voting Record would provide Limited Partners and investors in Future Partnerships, with very little opportunity for recourse if they disagreed with the manner in which the Partnerships or Future Partnerships exercised or failed to exercise its proxy voting rights, as the Partnerships or Future Partnerships would likely be dissolved by the time any change could materialize.

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17. Preparing and making available to Limited Partners, or investors in Future Partnerships a Proxy Voting Record will not be of any benefit to Limited Partners, or investors in Future Partnerships, and may impose a material financial burden on the Partnership Filers.

Decision

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 under the Legislation is that the Requested Relief is granted.

Susan Silma
Director, Investment Funds Branch
Ontario Securities Commission