

IN THE MATTER OF THE SECURITIES LEGISLATION OF ALBERTA, BRITISH COLUMBIA, MANITOBA, NEW BRUNSWICK, NEWFOUNDLAND, NOVA SCOTIA, PRINCE EDWARD ISLAND, SASKATCHEWAN AND ONTARIO

AND

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

AND

IN THE MATTER OF SPROTT SECURITIES INC.

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the "Decision Maker") in each of Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland, Nova Scotia, Prince Edward Island, Saskatchewan and Ontario (the "Jurisdictions") has received an application from Sprott Securities Inc. (the "Applicant"), the investment manager of Sprott Hedge Fund L.P. (the "Partnership"), for a decision pursuant to the securities legislation of the Jurisdictions (the "Legislation"):

(i) that certain trades in Subscribed Units and Reinvested Units (each as defined below) to existing holders of units ("Units") in the Partnership or of other limited partnerships or pooled fund trusts to be established by the Applicant or an affiliate of the Applicant and managed by the Applicant (collectively, the "Other Funds") are not subject to certain of the registration and prospectus requirements contained in the applicable Legislation, subject to certain conditions;

(ii) that trades in Units of the Partnership or the Other Funds are not subject to certain of the reporting requirements in the applicable Legislation, provided that a report of such trades in accordance with the form requirements prescribed by the Decision Makers and the prescribed fee are filed within 30 days of each financial year end of the Partnership or such Other Funds, as the case may be, subject to certain conditions; and

(iii) that certain of the conflict of interest provisions contained in the applicable Legislation shall not apply to the distribution of the Units of the Partnership or the Other Funds, subject to certain conditions;

AND WHEREAS pursuant to 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 Applicant has represented to the Decision Makers that:

1. The Applicant is a corporation incorporated under the laws of the Province of Ontario for the purpose of advising with respect to securities. The Applicant has been engaged to provide

investment advisory services to the Partnership and is responsible for the investment management of the Partnership's assets.

2. The Partnership was formed under the laws of the Province of Ontario by filing a Declaration of Limited Partnership under the *Limited Partnerships Act* (Ontario) on October 27, 2000. An additional Declaration of Limited Partnership was filed on December 7, 2000 to add the French name of the Partnership, namely, "Fonds de Couverture Sprott S.E.C".

3. Sprott Genpar Ltd., a corporation incorporated under the laws of the Province of Ontario, is the general partner of the Partnership. Sprott Asset Management Limited, a corporation incorporated under the laws of the Province of Ontario, is responsible for the administrative management of the Partnership on a day-to-day basis. Both Sprott Genpar Ltd. and Sprott Asset Management Limited are affiliates of the Applicant.

4. The Applicant is registered in Ontario as a dealer in the categories of investment dealer and broker, in British Columbia as an underwriter, in Alberta as a non-resident broker and investment dealer, in Quebec as a broker, and in Newfoundland as an underwriter.

5. The Applicant makes available to its clients the Units of the Partnership and may make available, from time to time, Units of the Other Funds. The Applicant will be responsible for the investment management of the assets of the Other Funds.

6. The Applicant coordinates the distribution of the Units of the Partnership and will co-ordinate the distribution of Units of the Other Funds. The Units of the Partnership and the Other Funds will be distributed on a continuous basis and will be offered to residents in the Jurisdictions.

7. The distribution of the Units of the Partnership are, and the distribution of Units of the Other Funds will be, subject to the registration and prospectus requirements contained in the Legislation (the "Registration and Prospectus Requirements").

8. None of the Partnership or the Other Funds is, or expects to become, a "reporting issuer" (or equivalent) as such term is defined in the Legislation.

9. The Partnership is, and each of the Other Funds will be, a "mutual fund" within the meaning of the Legislation. In addition, the Partnership is, and each of the Other Funds will be, a "mutual fund in Ontario" as defined in certain of the Legislation.

10. The Partnership is, and each of the Other Funds will be, required by its constating document to deliver to its Unitholders annual audited financial statements within 90 days of the fiscal year end of the Partnership or Other Fund, as the case may be. The Partnership also provides to its Unitholders, within 30 days of the end of each fiscal quarter, an unaudited performance report. In addition, the Partnership is, and the Other Funds will be, subject to the requirement to file and deliver financial statements in Ontario.

11. The Units of the Partnership and of the Other Funds will not be offered by a prospectus. However, an offering memorandum (containing rights of action and rescission as required under

the Legislation of the applicable Jurisdictions) will be delivered to prospective investors in respect of the Partnership and the Other Funds.

12. The Units of the Partnership are not, and the Units of the Other Funds will not be, transferrable. However, the Units of the Partnership are, and the Units of the Other Funds will be, redeemable at the request of the holder at their net asset value determined in accordance with the limited partnership agreement of each of the Partnership and the Other Funds. The Partnership has, and the Other Funds may have, additional restrictions on the right to redeem.

13. The minimum initial investment (the "Initial Investment") in the Units of the Partnership and of the Other Funds by an investor will not be less than \$150,000 in Ontario, Saskatchewan and Nova Scotia; \$97,000 in Alberta, British Columbia, Manitoba, New Brunswick and Prince Edward Island; and \$100,000 in Newfoundland (in each case, the "Prescribed Amount").

14. The Initial Investment will be made in reliance upon the registration and prospectus exemptions contained in the applicable Legislation.

15. Following an Initial Investment in the Partnership or the Other Funds by an investor, it is proposed that Unitholders be permitted to acquire additional Units ("Subscribed Units") of the Partnership or Other Funds, as the case may be, with an aggregate acquisition cost that is less than the Prescribed Amount by subscribing and paying for Additional Units in cash or securities other than Units.

16. Following an Initial Investment in the Partnership or the Other Funds by an investor, it is proposed that Unitholders also be permitted to acquire additional Units ("Reinvested Units", and collectively with the Subscribed Units, "Additional Units") of the Partnership or Other Funds, as the case may be, with an aggregate acquisition cost that is less than the Prescribed Amount by automatically reinvesting distributions or dividends otherwise receivable by the Unitholder which are attributable to outstanding Units of the Partnership or the Other Funds unless otherwise requested by the Unitholder.

17. The Partnership is, and each of the Other Funds will be, subject to the reporting requirements (the "Reporting Requirements") contained in certain of the Legislation, pursuant to which each of the Partnership and the Other Funds must file a report of an Initial Investment or a subscription for Additional Units of the Partnership or of the Other Funds.

18. The Applicant is subject to certain conflict of interest provisions contained in the applicable Legislation, specifically (a) the prohibition on registrants acting as an advisor in respect of securities of a connected issuer or a registrant (the "Advisor Restrictions"), (b) the requirement for a registrant to prepare and to file with the applicable Decision Makers a statement of conflict policies and to provide a copy of such policies to its clients, (c) the requirement that trade confirmations containing disclosure about the dealer's relationship with the issuer of the securities to which the confirmation relates be delivered by the dealer to the customer, and (d) the prohibition on registrants acting as underwriters or special selling group members, as defined in the applicable Legislation, in connection with an initial distribution of securities issued by a related and connected party to the registrant (collectively, the "Conflict of Interest Provisions").

19. The Applicant acts in a similar capacity with respect to the Units and Additional Units of the Partnership and Other Funds as does a mutual fund dealer or fully registered dealer with respect to associated mutual fund securities.

AND WHEREAS pursuant to 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 (other than the Decision Makers in Alberta, British Columbia, Nova Scotia and Saskatchewan) pursuant to the applicable Legislation is that the Registration and Prospectus Requirements do not apply to the purchase of the Additional Units provided that:

- (a) this Decision, as it relates to the jurisdiction of a Decision Maker, shall terminate 90 days after the publication in final form of any legislation or rule of that Decision Maker regarding trades in securities of pooled funds;
- (b) at the time of the acquisition of Additional Units of the Partnership or such Other Fund, the Unitholder who made the Initial Investment in the Partnership or such Other Fund of at least the Prescribed Amount then owns Units of the Partnership or such Other Fund, as the case may be, having an aggregate purchase price or net asset value of not less than the Prescribed Amount;
- (c) at the time of the acquisition of Additional Units of the Partnership or such Other Fund, the Applicant or any market intermediary assisting the Applicant in selling the Units in Ontario or Newfoundland is registered under the applicable Legislation as a dealer in the appropriate category and such registration is in good standing; and
- (d) no sales charge is payable with respect to the purchase of Reinvested Units; and

THE FURTHER DECISION of the Decision Makers (other than the Decision Maker in Manitoba) pursuant to the applicable Legislation is that the Reporting Requirements do not apply to trades in Units of the Partnership or the Other Funds, provided that:

- (a) within 30 days after each financial year end of the Partnership or the Other Funds, as the case may be, the Applicant files a report in accordance with the form requirements prescribed by the respective Decision Maker in respect of trades in Units of the Partnership or the Other Funds during such financial year; and

(b) within 30 days after each financial year end of the Partnership and the Other Funds, the Applicant remits the applicable fee on behalf of the Partnership or such Other Funds;

THE FURTHER DECISION of the Decision Makers in each of Ontario and Newfoundland is that the Applicant is exempt from the Conflict of Interest Provisions under the applicable Legislation provided that:

(a) in respect of the distribution of the Units or Additional Units of the Partnership or such Other Funds, the Applicant, before acquiring discretionary authority, secures the specific and informed consent of the client for the exercise of discretionary authority in respect of the Units or Additional Units of the Partnership or such Other Funds; and

(b) with respect to the Conflict of Interest Provisions other than the Advisor Restriction, this Decision shall terminate 90 days after the publication in final form of a rule regarding underwriting conflicts.

DATED this 20th day of July, 2001.

Paul Moore
Paul Moore

Jack A. Geller
Jack A. Geller

Headnote

Mutual Reliance Review System for Exemptive Relief Applications - trades by mutual funds of additional units to existing unitholders who hold units having an aggregate acquisition cost or aggregate net asset value equal to or greater than prescribed amount not subject to registration and prospectus requirements of the Legislation – trades by mutual funds exempt from requirement to file a report of such trades within the days of the trade, subject to certain conditions – applicant exempt from certain conflict of interest provisions, subject to certain restrictions

Applicable Ontario Statutes

Securities Act, R.S.O. 1990, c.S.5, as am., ss. 25, 53, 74(1), 72(3)

Applicable Ontario Regulations

Regulation made under the Securities Act, R.R.O. 1990, Reg. 1015, as am., ss. 223, 224(1)(a), 226, 227, 228, 230(2).

Applicable Ontario Rules

Rule 45-501 Exempt Distributions (1998) 21 OSCB 6548

