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British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Office of the Administrator, New Brunswick
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Registrar of Securities, Nunavut

Dear Sirs/Mesdames:

Re: Proposed National Instrument 81-106 – *Investment Fund Continuous Disclosure*

On behalf of Middlefield Capital Corporation, we hereby wish to draw to the attention of the Canadian Securities Administrators the following two concerns regarding proposed National Instrument 81-106 ("**NI 81-106**") as currently drafted:

(a) ***Issue 1 – Fund on Fund Investment***

NI 81-106 will require an investment fund (the "**Top Fund**"), whose securities are listed on the Toronto Stock Exchange (the "**TSX**"), that invests in another investment fund (the "**Bottom Fund**"), whose securities are also listed on the TSX, to value its investment in the securities of the Bottom Fund at their current market value (i.e., at the price of the securities of the Bottom Fund as reported on the TSX) even though the Top Fund's investment in the Bottom Fund will usually only be sold at the net asset value of the Bottom Fund, which will typically be higher than its price as listed on the TSX (i.e., the securities of the Bottom Fund trade at a discount on the TSX).

Analysis

NI 81-106 states in section 14.2(1) that an investment fund must calculate its net asset value in accordance with Canadian GAAP.

"*Net Asset Value*" is defined in section 1.1 of NI 81-106 to mean, for an investment fund as at a specific date, the current value of the total assets of the investment fund less the current value of the total liabilities of the investment fund, as at that date, calculated in accordance with Canadian GAAP.

"*Current Value*" is defined in section 1.1 of NI 81-106 to mean, for an asset held by, or a liability of, an investment fund, (a) the market value, or (b) if the market value is not readily available, the fair value.

The problem with these definitions is that they do not allow the Top Fund to value its investment in a Bottom Fund at its net asset value, and instead require it to value its investment in the Bottom Fund at its current market value.

For example, the Strata Income Fund, which sold preferred securities and capital units to interested investors, invested the proceeds in units of the Compass Income Fund. The preferred securities and the capital units of the Strata Income Fund, and the units of the Compass Income Fund, are all listed on the TSX. The units of the Compass Income Fund are only redeemable on November 30th of each year. An investor in the Strata Income Fund has two options if the investor wants to redeem the investor's preferred securities and capital units of the Strata Income Fund:

(a) Option 1 – The investor in the Strata Income Fund can redeem a preferred security and a capital unit of the Strata Income Fund on November 30th of each year beginning on November 30, 2005 at a value equal to (i) the subscription price of the preferred securities and any accrued and unpaid interest (the preferred securities of the Strata Income Fund pay a fixed quarterly interest payment of $0.15 per preferred security) plus (ii) the net asset value of the capital units on such date, less the lesser of (A) $0.25 per preferred security and capital unit of the Strata Income Fund, and (B) any brokerage costs incurred by the Strata Income Fund if it has to redeem any units of the Compass Income Fund; or

(b) Option 2 – The investor in the Strata Income Fund can redeem a preferred security and a capital unit of the Strata Income Fund on the last day of any month (excluding November 30th) at 96% of the average market value of such securities on the TSX over the previous 15 trading days less any brokerage costs incurred by the Strata Income Fund if it has to sell any units of the Compass Income Fund in the open market.

We respectfully submit that in this situation it makes more sense for the Strata Income Fund to reflect its investment in units of the Compass Income Fund at their net asset value rather than at their current market value. Although an investor in the Strata Income Fund can redeem their investment by means of Option 2, given the discounts involved in exercising this option (i.e., only receiving 96% of the current market value of the preferred securities and capital units of the Strata Income Fund, which themselves are based on the discounted price of the units of the Compass Income Fund on the TSX), it is not expected that this option will be used. Instead, if an investor cannot wait to redeem their preferred securities and capital units of the Strata Income Fund on November 30th of a given year, the investor will simply sell such securities in the open market. Under these circumstances, we respectfully submit that it makes mores sense for the Strata Income Fund to reflect its investment in units of the Compass Income Fund at the net asset value of such units rather than at their current market value.

Furthermore, we respectfully submit that in most fund of fund situations, where the securities of the Bottom Fund are listed on the TSX or some other stock exchange, an investor may not have the second option referred to above. In these situations, the argument that the Top Fund should be allowed to reflect its investment in the securities of the Bottom Fund at the net asset value of such securities, rather than at the current market value of such securities, may be even more compelling.

Recommendation

Based on the foregoing, we respectfully submit that NI 81-106 needs to be revised to more carefully set out how one fund's investment in another fund is reported, particularly if the securities of the Bottom Fund are publicly listed.

(b) ***Issue 2 – Valuing Debt Securities Issued by an Investment Fund***

As indicated above, NI 81-106 will require an investment fund to value all of its liabilities, including any debt securities it has issued to the public that are listed on the TSX, at their current market value. We respectfully submit that there may be situations where such debt securities should be recorded on the balance sheet of the investment fund at the price at which they were issued rather than at their current market value (i.e., at their cost), particularly if the only obligation of the investment fund is to redeem such debt securities at the price at which they were issued less any redemption costs that may be incurred by the investment fund.

Analysis

If an investment fund issues debt securities that are listed on the TSX or some other exchange, it will be obliged, based on the definition of "net asset value" and "current value" in NI 81-106 (see above), to value such debt securities at their current market value. We respectfully submit that in most instances this will not be appropriate, particularly if the only obligation of the investment fund is to repay the redeeming investor the initial cost of such debt securities less any redemption costs.

For example, the preferred securities of the Strata Income Fund were originally issued at a price of $10 per preferred security and pay a quarterly interest amount, which means the market price of these securities will generally rise as a quarter end approaches as the price of such securities will begin to reflect the interest that is about to be paid on such securities. If the Strata Income Fund has to report these preferred securities at their current market value rather than at their cost, the fund could, depending on the date chosen for preparing the fund's financial statements, end up double counting the interest component of such securities (i.e., the current market value of the preferred securities may partially reflect a pending interest payment at the same time as the fund will be required to recognize any accrued but unpaid interest expenses).

In addition, if the holder of a debt security that has been issued by an investment fund is only entitled to the return of their investment, it would appear appropriate in these circumstances to value the debt security at its original cost and not at its current market value.

For example, as set out above, an investor in the Strata Income Fund can redeem their preferred securities in one of two ways. Under the first option, the investor will only receive the initial price they paid for such securities plus any accrued, but unpaid interest, less certain redemption costs. Under the second option, the investor will only receive 96% of the current market value of such preferred securities, less certain possible redemption costs. However, as set out above, it is not expected that any investors will choose this latter option. Instead an investor is more likely to sell their preferred securities in the open market than incur this discount. Accordingly, under the circumstances, we respectfully submit that it makes more sense for the Strata Income Fund to reflect its preferred securities on its balance sheet at the price at which they were issued (i.e., their cost) rather than their current market value on the TSX.

Recommendation

Based on the foregoing, we respectfully submit that NI 81-106 needs to be revised to allow an investment fund to report any debt securities it has issued at their cost rather than at their current market value.

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Thank you for considering this submission.

If you have any questions regarding the foregoing, please do not hesitate to contact the undersigned at 416 868 3422.

Yours truly,

"Garth J. Foster"

Garth J. Foster

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Copy: Sylvia Stinson, Middlefield Capital Corporation
Stephen Erlichman
John Sabetti