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- and -

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Dear Sirs and Mesdames:

**Re: CNSX Markets Inc. (the "Exchange") - Notice 2021-005 - Request for Comments on
Certain Proposed Amendments to the CSE Policies and Related Forms for Listed Issuers
(the "CSE Notice")**

This letter is provided to you in response to CSE Notice published by CNSX Markets Inc. and request for comment on certain proposed amendments to the CSE policies and related forms for listed issuers (the "Amendments").

We welcome the CSE's initiative to streamline and clarify certain qualification requirements and reporting obligations in a general effort to lighten the regulatory burden faced by reporting issuers in Canada. With a view to contributing to these efforts, we provide herewith comments in respect to the Amendments and our responses to some of the specific questions asked by the CSE in its Notice. We thank you for affording us the opportunity to comment on this important matter, and we trust that the CSE will consider the views expressed in this letter in finalizing the Amendments. This letter represents the general comments of our firm (and not of any client of the firm) and are submitted without prejudice to any position taken or that may be taken by our firm on its own behalf or on behalf of any client.

Comments related to NV Issuer Designation

Overall we support the proposed changes relating to the creation of special purpose acquisition corporations, the specific reporting requirements for "NV Issuers", and have mainly focused our responses on certain of the proposed amendments relating to non-NV Issuers. Our only comments on the proposed NV Issuer policies are that due to the additional filing and disclosure requirements for NV Issuers. We believe that the NV Issuer designation should only be applied for non-opting issuers if the issuer meets at least two of the four tests outlined in new sections 2A.4(2) and 2A.4(3). Also, given the impact of the changes to the NV Issuers, the Net Income Standard in 2A.4(b)(i) should be increased to a net income requirement of \$750,000 from continuing operations in the most recent fiscal year or in two of the three most recent fiscal years to match the minimum requirements of other senior exchanges including the NEO.

Currently for purposes of National Policy 46-201 – *Escrow for Initial Public Offerings* ("NP 46-201"), CSE issuers are not recognized as "established issuers". We believe that CSE issuers meeting the NV Issuer thresholds should also be considered "established issuers" for purposes of NP 46-201 allowing NV Issuers to have the benefit of the shorter escrow periods if they otherwise meet the standard of an "established issuer" under NP 46-201. Accordingly, for non-IPO scenarios where a listed issuer subsequently becomes an NV Issuer, we think the CSE should consider adopting a shorter escrow period for escrowed securities matching the escrow periods in NP 46-201 for established issuers. The CSE should also consider requesting corresponding changes to NP 46-201 to recognize NV Issuers as established issuers for IPO purposes in the future.

We provide the following comments with respect to certain of the specific questions set out in the CSE Notice.

Shareholder Distribution

1. *The Policies currently provide that the Exchange may not consider the minimum float distribution to be met if a significant number of public holders (of the required 150) hold the minimum number of shares (i.e., the boardlot).*
 - (a) *Should the "significant number" be defined, the minimum number of shares be increased (note that the requirement for a boardlot is standard on Canadian exchanges), or should the Exchange review the distribution to determine if there is a "normal distribution" across the shareholder base?*
 - (b) *Are there specific types of distributions, that should be discouraged, discounted, or disallowed when considering if the float requirements have been met, and if so, could this be achieved through changes to the number of holders and minimum number of shares?*

In general we think it would be preferable to avoid creating higher bright line requirements for the percentage of float and number of board lot shares held by public shareholders. The CSE can and does retain the discretion to reject the listing of issuers with an unbalanced share capitalization (eg in cases where

founders hold a significant percentage of the issued shares at nominal prices) where the CSE minimum distribution standard is met. The policies should consider factors such as those listed in CSA Staff Notice 41-305 to support the listing of an otherwise unacceptable share structure, for example if the founders have spent time, effort or resources developing a business, then a structure containing significant nominally priced founders' shares may be appropriate.

2. *The minimum number of public holders proposed for CSE NV Issuers is the same as NEO and TSX. The current minimum public float requirement is 10% held by 150 public holders, compared with 20% held by 200 (TSX Venture, Tier 2), 250 (TSE Venture, Tier 1). The CSE minimum listing requirements are intended to facilitate listing at an earlier stage.*
 - (a) *Are the current 10% public float and 150 public holder requirements appropriate and, if not, what are appropriate thresholds and why?*
 - (b) *Are there other factors the CSE should consider in determining the appropriate minimum public float?*

We agree in general with the CSE's decision not to increase the minimum public holder requirements for the reasons stated in the CSE Notice. We are unsure of whether increasing the threshold by 50 or more will bring increased liquidity and the addition of more shareholders to the initial distribution requirement may make it more difficult to facilitate earlier stage listings that have an otherwise acceptable share structure.

With respect to question 2(b) the CSE should consider excluding from its determinations of both the public float and shares held by public shareholders any shares that were acquired principally by way of gift or require additional distribution in cases where less than 25 shareholders hold more than one-half of the public float. These changes would be in line with the policies of other exchanges and these types of issues could be reviewed and addressed on a pre-listing basis at the listing eligibility review stage by the CSE.

Mineral Exploration Projects

3. *The "prior expenditures" requirement is intended to demonstrate that a mineral exploration project has sufficient potential to have justified a minimum level of work, or to demonstrate that an issuer is committed to the mineral exploration business. The current requirement is for \$75,000 in expenditures in the most recent 3 years, which is lower than the TSX Venture Exchange requirement of \$100,000. While CSE has not proposed any changes to the requirements, we are seeking specific feedback on the following:*
 - (a) *The time period – is it appropriate to link this [expenditures] requirement to a time period? If so, is 3 years appropriate, and should the time period be immediately prior to listing/applying to list?*
 - (b) *Is a specific level of expenditures necessary, or should other quantifiable measures be introduced?*
 - (c) *Should the minimum requirement for prior expenditures be higher than \$75,000, and why?*

We are not sure that marginally increasing the threshold on the prior expenditure requirement will make a significant difference to the evaluation of a listing. We would recommend keeping the current requirement with a three year time period which is consistent with other exchanges. The CSE should consider instead a waiver policy where they may waive all or a portion of the prior expenditures requirement by comparing the size of the

work program against any prior expenditures, the size of an arm's length financing concurrent with the listing and the experience of an issuer's management team. The CSE should also consider looking at prior exploration expenditures by the issuer during the years preceding the most recent three year period to consider waivers in situations where exploration may have been delayed due to weather, the Covid pandemic or market conditions affecting the ability to obtain financing for exploration.

4. *The Exchange's objective is to provide listing to early-stage projects. The minimum budget for a recommended phase 1 program is currently \$100,000 which is less than the TSX Venture Exchange requirement of \$200,000.*
- (a) *Is the current CSE minimum budget for future work in this requirement appropriate? Why or why not?*
 - (b) *Is the approach appropriate, or could an alternative approach provide comfort regarding the potential of a mineral exploration project and the issuer's commitment to exploration?*
 - (c) *Would increasing the prior expenditures and/or phase 1 budget requirements prevent or reduce the likelihood of deliberately listing a company to be used as a shell following listing?*
 - (d) *As noted above, the Exchange seeks to limit or prevent the deliberate listing of a mineral exploration company for the purpose of using it as a shell company rather than pursuing the business of mineral exploration. Are there any additional controls or restrictions that will discourage this deliberate practice, such as suspension/delisting? Please note there is similar discussion and request for comment below for issuers other than mineral exploration companies.*

We are not sure that by increasing the first phase work requirement threshold, the CSE will deter those that don't intend to follow through on the mineral exploration business. Given the proposed rule changes and emphasis in the Amendments on following through on business objectives and new pre-listing review requirement, the CSE will have the ability to assess the proposed listing, the issuer's management history and the mineral project itself on its merits at an earlier stage in lieu of any additional prescriptive requirements.

Exchange and Shareholder Approvals

Acquisitions and Dispositions

5. *Should all share issuances be reviewed by the Exchange in advance of closing? Other than ensuring price compliance and determining if additional approval or disclosure requirements have been triggered, please comment on which aspects of a proposed financing should be reviewed or approved.*

The proposed Amendments include a number of changes to the distribution policy including requiring shareholder approval of certain types of financings, acquisitions and dispositions as well as changes requiring more advance public notice of the closing of a financing which we support and are consistent with the policies of other exchanges. These changes may assist in offsetting the need for a review of all proposed financings. The current CSE process for financings has resulted in reduced administrative costs and expedited closings which has provided timely funding for a significant number of listed CSE issuers. If the CSE is considering instituting a review process for financings they may consider as a starting point instituting a confidential review for certain proposed share issuances such as shares for debt transactions to verify the debt being settled is properly accounted for and for review of acquisitions and dispositions consistent with the policies of other exchanges but with lower thresholds and conditions to make available to issuers an exemption from higher level review.

Conclusion

Thank you again for allowing us to provide comments on the proposed amendments. We hope that the comments and suggestions set forth in this letter will further contribute to finalizing the Amendments and future potential policy changes.

Yours truly

/s/ Boughton Law Corporation

Boughton Law Corporation