May 7, 2001

Ontario Securities Commission
20 Queen Street West
Suite 1903, Box 55
Toronto, Ontario
M5H 3S8

Attention: Mr. John Stevenson, Secretary

Re: Request for Comments
Proposed Ontario Securities Commission Rule 45-501 *Exempt Distributions*

Dear Sirs/Mesdames:

We are writing in response to your Request for Comments concerning proposed Rule 45-501 *Exempt Distributions* (the "Proposed Rule").

The Proposed Rule will have a very detrimental effect on junior exploration issuers, and consequently the Canadian resource sector and our northern communities.

Of particular concern is the proposal to eliminate the government incentive security exemption contained in section 2.4 of current Rule 45-501. The elimination of the exemption will inhibit the ability of exploration issuers to take full advantage of the new "super" flow-through share program that was recently implemented at both the federal and provincial levels of government. Under the Proposed Rule, only accredited investors, which represent a very small percentage of the population, will be permitted to acquire flow-through shares on an exempt basis. The proposals will prevent junior exploration issuers from accessing a significant portion of their traditional exempt market investor base. Issuers will be forced to access that investor base by way of prospectus offering which is very costly and often economically indefensible.

The Commission is creating a bright line test for determining which investors do not require the protections of the Act. As an academic exercise, the simplification of the exempt distribution regulatory scheme may be completely defensible. Practically however, it fails to recognize very real industry specific needs. The need to have a unique exemption to facilitate the flow-through share programs was clearly recognized through the introduction of the current exemption. It is difficult to understand how the Ontario government can implement a program in an attempt to increase investment in an industry fundamental to the Ontario economy and have one of its own agencies threaten the efficacy of the program.

The current government incentive security exemption should be maintained and the accredited investor exemption should introduced as an additional exemption. This would ensure maintenance of the already thin exempt market for flow-through shares and access for junior exploration issuers to their traditional investor base on a cost effective basis. Flow-through shares can be suitable investments for individuals that are not accredited investors and, in fact, the lower an individual's net income the greater the leverage of the tax credit aspect of the investment. Investor protection is addressed through the mandated offering memorandum requiring prospectus level disclosure and the requirement that investors have the net worth, experience or professional advice to be able to evaluate the investment. The current exemption provides a reasonable balance between investor protection and capital formation.

The Proposed Rule will add to the already difficult position faced by junior exploration issuers that are part of the over-the-counter or CUB market. The lack of transparency of the CUB market makes it almost impossible for issuers to price and therefore sell securities, including flow-through shares. The majority of flow-through shares are sold at prices based on the average market price over the prior ten day period. It is very difficult to ascertain a current market price for CUB company shares, let alone the share price over the prior ten day period. We request that you bring this matter to the attention of the staff in your Market Regulation section that are responsible for exchange regulation.

As a result of the apparent disharmony between the initiatives of the OSC and those of the ministries responsible for the "super" flow-through share program, we would encourage you to reconsider with your government colleagues in Natural Resources Canada, that Canada Customs and Revenue Agency, the Ministry of Northern Development and Mines and the Ontario Ministry of Finance, the consequences of the elimination of the government incentive security exemption. It is our opinion that the Proposed Rule will have a very detrimental effect on the success of the "super" flow-through share program and therefore its objectives of promoting growth of the resource sector and our northern communities.

In case you were unaware that both the federal and Ontario governments have recently encouraged the use of "super" flow-through shares to stimulate exploration expenditure in Canada, we attach two brochures which explain the investment tax credit system; one published by Natural Resources and the other by the PDAC.

If we can be of any help in elaborating on super flow-throughs or on our concerns, please do not hesitate to contact David Comba at (416) 362-1969.

Yours very truly,

PROSPECTORS AND DEVELOPERS ASSOCIATION OF CANADA

Per: Anthony (Tony) Andrews
Executive Director

Encls.

c.c. Rick Whiler, OSC
Susan McCallum, OSC

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