June 19, 2003

Mr. John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario M5H 3S8

Dear Sirs:

Re: Comments on Proposed Amendments to Rule 61-501 – Insider Bids, Issuer Bids, Business Combinations and Related Party Transactions (the "Proposed Rule") and Companion Policy 61-501CP to the Proposed Rule

I. Introduction

The TSX Venture Exchange ("TSX Venture") has reviewed the Proposed Rule, as published for comment by the Ontario Securities Commission (the "OSC") on February 28, 2003 pursuant to an accompanying notice (the "OSC Notice").

Given our role as an exchange for emerging issuers, our response to the Proposed Rule takes into account the issues and concerns inherent in the public market for these issuers. We believe that we are in a unique position to comment on the Proposed Rule as we have incorporated it by reference into TSX Venture Policy 5.9 – *Insider Bids, Issuer Bids, Going Private Transactions and Related Party Transactions* ("Policy 5.9"), and therefore have direct experience with the issues that arise as a result of its application to emerging issuers.

All capitalized terms used in this letter have the same meanings as defined in the Proposed Rule, unless otherwise defined herein.

II. General Comments

We are in general agreement with the amendments reflected in the proposed Rule. In particular, we support the introduction of the new exemption from the valuation requirements for issuers that are not listed on certain specified markets (the "Specified Market Exemption") that has been introduced at paragraph 2 of subsection 4.4(1) in respect of business combinations, and paragraph 3 of subsection 5.5, in respect of related party transactions. We believe that the Specified Market Exemption will be of considerable benefit to our emerging issuers, as it is anticipated to provide them with both time and cost savings in that they will no longer be required to make applications to TSX Venture in order to rely on certain of the TSX Venture exemptions.

III. Specific Comments

A. Specified Market Exemption

Although we generally support the Specified Market Exemption, we do have two major concerns with that exemption. These concerns are as follows:

1. The New Specified Market Exemption Should Also be a Minority Approval Exemption

We note that the Specified Market Exemption is restricted solely to an exemption from the valuation requirements of the Proposed Rule and does not include an equivalent exemption from the minority approval requirements at either section 4.6, in respect of business combinations, or section 5.7, in respect of related party transactions. We agree that in the majority of situations, it is appropriate to require securityholder approval for these types of transactions. It is our view, however, that an equivalent minority approval exemption should be available to emerging issuers, where the securities of such emerging issuers are listed or quoted on a marketplace that has rules or policies providing for securityholder approval and disclosure requirements respecting business combinations and related party transactions. This exemption should not be a general exemption, but should only be available where the marketplace provides a specific waiver from the securityholder approval requirement.

We are of the view that TSX Venture already has policies and processes in place that provide for securityholder approvals and disclosure requirements for business combinations and related party transactions in appropriate circumstances. In general, related party transactions and business combinations effected by TSX Venture issuers are subject to shareholder approval requirements. It should be noted that although we intend to revisit our shareholder approval requirements in respect of arm's length transactions in order to ensure they are reasonable and strike the correct balance between shareholder protection and facilitation of business, we do not expect to make any significant modifications to the requirements for shareholder approval in respect of related party situations or business combinations.

In addition, TSX Venture issuers undertaking related party transactions and business combinations are currently subject to significant review by TSX Venture staff in order to ensure that shareholders are not prejudiced by such transactions. In determining the need for securityholder approval, TSX Venture staff examine the transaction(s) and the issuer as a whole and review various factors, including the nature of the transaction, whether it involves an asset whose value can be established by formal valuation or otherwise, the cost of obtaining shareholder approval vis a vis the consideration to be paid by the issuer, and the apparent benefits accruing to the related parties. These variables do not readily lend themselves to definition within a rule. As such, we believe that flexibility in application of the securityholder approval requirement is important.

Aside from the requirements imposed by Policy 5.9, we are not aware that shareholder approval requirements are imposed for private placements that are effected with related parties, where there is no change of control of an issuer. It is our view that these private placements need not be subject to Policy 5.9 or the minority approval requirements of the Rule. Our position on this is reflected in Appendix A.

Based on restrictions in Exchange Policies and practices respecting shareholder approval, disclosure requirements and TSX Venture review, as well as the reasons set forth in Appendix A, we are of the view that significant transactions that may be effected by TSX Venture listed emerging issuers in the context of business combinations, related party transactions or private placements are subject to sufficient safeguards in terms of shareholder approval and disclosure requirements. Accordingly, the additional safeguard respecting minority approval under the Proposed Rule, is not necessary for TSX Venture listed issuers.

Therefore, we would submit that the Specified Market Exemption be expanded from a valuation exemption for business combinations and related party transactions, to an exemption from minority approval requirements, provided that the marketplace (such as TSX Venture) has adequate review procedures and safeguards in place.

2. The Conditions Attached to Use of the New Specified Market Exemption Are too Restrictive

Although not specifically mentioned in the Proposed Rule, we note that item 6(b) of the OSC Notice provides that the Specified Market Exemption will not apply unless the issuer has at least one independent director, as defined in the Proposed Rule, and at least two-third of the independent directors, approve the transaction.

We are of the view that this condition may be impractical for emerging issuers in certain circumstances. Given the small board size of emerging issuers, and the interrelated nature of issuers listed on TSX Venture, there may be certain circumstances where the independence requirement cannot be fulfilled. We are of the view that an exception to this requirement should be available where the value of the asset or business in question can be ascertained, or where an independent third party can provide a fairness opinion acceptable to the market upon which the issuer is listed or quoted.

B. Other Comments

In addition to concerns regarding the Specified Market Exemption, we have the following additional comments:

1. Written Consents for Minority Approval

One of the principal concerns for emerging issuers in respect of satisfying minority approval requirements has not been related to obtaining such approval, but rather to the costs associated with holding a formal meeting of shareholders. In order to relieve emerging issuers from these cost burdens, TSX Venture has, in the context of various significant transactions (i.e., Reverse Take Overs, Reviewable Transactions) permitted issuers to obtain requisite shareholder approvals by means of informal written consents from shareholders. We would submit that the Proposed Rule should also make this alternative available, particularly to emerging issuers, in order to relieve them of the cost burden for holding a formal meeting. Perhaps the nature of such informal disinterested

shareholder approval could be a requirement that all beneficial holders who each hold greater than 5% of the outstanding securities of the issuer, would be required to approve the transaction.

2. Definition of Related Party

The definition of "related party" may be overly broad. One example may be a transaction where an officer of a reporting issuer (not a top-ranking officer and not a director) with a small shareholding position in the reporting issuer was purchasing assets of the reporting issuer. From the reporting issuer's perspective, the transaction could be negotiated and evaluated on an entirely arm's length basis. Yet, based on the related party and related party transaction concepts, this transaction could well be considered a related party transaction for the purpose of the Proposed Rule. This appears to be an unintended consequence, due to the very broad wording of the related party definition.

IV. Conclusion

We thank the OSC for providing us with the opportunity to comment on the Proposed Rule.

Depending upon the final wording of the Proposed Rule, we anticipate that we will be making an application to the OSC for approval of amendments to Policy 5.9 and related Appendices in order to ensure conformity to the revised Proposed Rule and Companion Policy.

Naturally, if you have questions, please do not hesitate to contact me.

Yours truly,

TSX VENTURE EXCHANGE

"Linda Hohol"

Linda Hohol
President

APPENDIX A

PRIVATE PLACEMENTS EFFECTED AS RELATED PARTY TRANSACTIONS

We are of the view that private placements effected as related party transactions by TSX Venture emerging issuers need not be subject to the minority approval requirements of the Proposed Rule.

We take this position because we are of the view that TSX Venture Policies provide for various safeguards preventing potential abuse of the interests of minority securityholders. These safeguards and other reasons include the following:

a. The nature of TSX Venture emerging issuers is significantly different from more senior issuers. Unlike senior issuers, emerging issuers are usually not subject to financings by institutional investors. Rather, their financings are frequently dependent upon retail investors, who are often related parties to the issuers. As such, since these emerging issuers, by their very nature, rely upon financings from related parties, it would be inappropriate to require that such financings be subject to minority approval requirements, particularly considering the cost burdens involved. Typically, it is these emerging issuers, which are least able to bear these cost burdens.

   In any event, we would submit that these burdens largely outweigh the benefits (i.e. increased financings for the issuer) that may accrue to minority securityholders.

b. The purchase price for listed securities must not be less than the Discounted Market Price for those listed shares (See section 1.6 of Policy 4.1 – *Private Placements* ("Policy 4.1")). Discounted Market Price is defined as follows:

   "the Market Price less a discount which shall not exceed the amount set forth below:

Closing Price	Discount
Up to $0.50	25%
$0.51 to $2.00	20%
Above $2.00	15%

   These restrictions result in ensuring that any listed shares issued to related parties are issued at the same price as they would have been, had the securities been issued to an arm's length subscriber. In other words, TSX Venture requirements prohibit an Issuer from effecting a private placement to any subscriber (arm's length or related party) unless the price is at least at the Discounted Market Price. This has the effect of preventing a related party from "stocking up" on cheap shares, to the detriment of other securityholders of the issuer.

   In addition, it should be pointed out that subject to certain limited exceptions (i.e., financial hardship), an issuer would not, in any event, be permitted to issue listed securities at below $0.10 per share to any subscriber. This provides a further restriction on the issuance of "cheap" shares to securityholders, including related parties.

c. If a related party that is not a control person but will, as a result of the private placement, become a new control person of an issuer upon the issuance of

securities (including convertible securities that are subject to conversion into listed securities), TSX Venture will require shareholder approval for the private placement (see section 1.10(a) of Policy 4.1).

Therefore, whether or not a party to the private placement is or is not a related party, shareholder approval will nonetheless be required if that party will become a new control person of the issuer. This shareholder approval must exclude from the relevant calculations the votes attached to securities held by placees or Non Arm's Length Parties of the placees. We would submit that in the case of emerging issuers, a change of potential control is generally of greater importance to securityholders, than a simple increase in the share position of a related party, (where that related party is already a control person) particularly where that related party has purchased the securities at a price at least equal to the Discounted Market Price. In fact, we submit that emerging issuer securityholders generally believe that additional subscriptions in private placements by related parties, exhibits increased confidence in the issuer. Generally, securityholders are more concerned with a change of control of the issuer as opposed to an increase in a related party's security holdings.

d. If the private placement appears to be undertaken as a defensive tactic to a take-over bid, (i.e., to entrench management) TSX Venture may require prior securityholder approval for the private placement (see section 1.10(c) of Policy 4.1).

e. In summary, we are of the view that there does not appear to be a good public policy reason to restrict private placements to related parties of emerging issuers, based on the foregoing safeguards.