CANACCORD
CAPITAL

PETER M. BROWN
CHAIRMAN & CHIEF EXECUTIVE OFFICER

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Patricia Leeson
Co-Chair – CSA Prospectus Systems Committee
Alberta Securities Commission
4th floor, 300 - 5th Ave. S.W.
Calgary, AB T2P 3C4

Heidi Franken
Co-Chair – CSA Prospectus Systems Committee
Ontario Securities Commission
20 Queen Street West, Suite 1903, Box 55
Toronto, ON M5H 3S8

Dear Co-Chairs:

Canaccord Capital would like to comment on some of your proposed changes to the general prospectus requirements in the National Instrument 41-101.

1. Limit of 5% on Compensation Securities Qualified Under a Prospectus

I understand that this interference in the market place and free negotiations is to address a concern as to "back door underwritings". If there is such a thing it would be such a rare occurrence that I fail to see the need to restrict the right of negotiations of all the participants. We would like to make the following points:

a) Canada probably has the most efficient public fund raising mechanism for small to medium companies in the world today.

b) You are making changes for reasons that are largely invalid in a system that works.

c) Compensation is rightfully a matter of negotiation between the company and its underwriter. In our experience, all companies try and limit warrants when they can and those with greater than 5% underwriter's warrants tend to be those names that are less known with less liquidity and therefore require a greater degree of marketing and market risk. In fact, some of these names require more work than the larger capitalized, well known corporate names and because by nature they are smaller underwritings, the cash compensation

is also smaller and is made up to some degree by the extra warrant compensation.

d) Most of these small to mid cap financings are done by the independent firms whose margins are shrinking as commissions are compressed and costs are rising, particularly in the cost of technology, research and compliance. The regulatory bodies have added considerably to these costs and to limit the revenue opportunities for such an obscure reason makes no sense.

e) The Commission, in this case, would be interfering with the markets ability to price its services. The present.system is producing good results .in the small business area that is so important to the Canadian economy. I suggest the CSA look at hard evidence of so called "back door underwritings" as a percentage of the total small to mid cap financings that are successfully completed in Canada before trying to fix a system that is definitely not broken.

2. **Marketing during the waiting period**

Canaccord is disappointed that the CSA would, in this day and age, look to limit marketing materials and revert to the Prospectus document only. Many participants and regulators believe that the Prospectus is an outdated and cumbersome document that is little read by many purchasers as it is cumbersome, legalistic and not user friendly. Any survey of institutional and retail investors would confirm a frustration with the prospectus document and a preference for summaries and power point presentations together with the Prospectus document. We would hope that the CSA would take this opportunity to expand the information available to investors rather than limit it. The principal purpose of a capital market is to finance the country's corporate growth and I would suggest that financing the smaller corporation, which is the engine of employment, is paramount. Marketing for these issuers is a difficult process and these additional materials are a benefit to both the underwriter and the investor. It is hard to believe that the Commission believes that it is of benefit to the investing public to limit information to investors and it is equally hard to believe that the CSA is of the view that the regulators understand the investor's requirements and preferences better than the underwriter who has a one on one relationship with the investor.

We would hope the CSA would take this opportunity to rethink the entire policy. If they are concerned about promotional excess in the marketing material a more intelligent solution would be to require them to be filed with the Preliminary Prospectus — not for approval but only to receive negative comments in a limited period of time such as 72 hours.

We understand the CSA would like to bring in new rules requiring a "substantial beneficiary" to assume the liability for the entire prospectus where the proceeds are used to make an acquisition. It is clear that this would put Canadian companies at a substantial disadvantage in pursuit of acquisitions and in fact in many cases would make a Canadian public company the purchaser of last resort. We believe this to have substantial impact in a competitive and global business climate.

We cannot help but be concerned about the thought processes that collectively bring about the recommendations listed above. None of them enhance investor protection materially or contribute to corporate competitiveness or market efficiency.

Yours truly,

Peter M. Brown
Chairman & CEO

cc: Doug Hyndman Anne-Marie Beaudoin