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March 30, 2007

Heidi Franken, Co-Chair of the CSA's Prospectus Systems Committee
Ontario Securities Commission
20 Queen Street West, Suite 1903, Box 55
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Re: Request for Comments – National Instrument 41-101 – General Prospectus Requirements and related proposed amendments to National Instrument 44-101 – Short Form Prospectus Distributions

Research Capital Corporation ("RCC") has reviewed the revised and proposed changes to the above National Instruments and we wish to provide our comments as these relate to Part 11: Over-Allocation and Underwriters and Part 5: the Certification Requirements for Substantial Beneficiaries of the Offering.

RCC has specific concerns relating to the proposed sections and the implications this will have to the timeliness and efficiency that are currently afforded to prospectus offerings currently completed in Canada.

Section 11 of the Proposed National Instrument 41-101

RCC has reviewed comments provided by others to the CSA on the proposed revisions to the National Instrument and RCC is in agreement with the comments made by Canaccord Capital regarding Section 11. In addition to those comments made RCC would like to add the following in relation to Section 11.3.

The proposed section 11.3 prohibits the distribution of securities under a prospectus to a person acting as an underwriter for a distribution of securities under the prospectus, other than; (1) over-allotment options, or (2) certain compensation securities. The CSA reasoned that there was a need to protect against the practice of "back-door underwriting" whereby the person receiving said securities re-sells these securities without providing the purchaser with a copy of the prospectus. More specifically securities issued under (2) are restricted to 5% of the base offering. The CSA reasoned that "any risk that such securities are being acquired by the dealer with a view to resale in the course of or incidental to the prospectus distribution is reduced."

RCC would like to make the following comments in response to the above and the proposed addition of Section 11.3 of National Instrument 41-101:

1. Compensation Securities, (more commonly referred to as "Broker Warrants"), are generally granted as part of compensation in more junior offerings where the risks and amount of work to be performed by the Underwriter is high relative to the cash compensation. Limiting the non-cash compensation may only make the junior Canadian capital markets less competitive. The regulations should favor disclosure over dictating the negotiations between arm's length parties.
2. The proposed limit is arbitrary and inconsistent with the objective of preventing "back-door underwriting". If the reasoning of adding 11.3 to the National Instrument is to prevent "back-door underwriting" then the amount of securities provided as part of compensation would not be relevant, as any amount might be material to individual purchasers. If however the CSA believes that an incidental compensation amount would be of less of a risk and not purport to be a "back-door underwriting" then the allowable amount should not be tied to the financing in question but should be linked to the capitalization of the Issuer. By way of example: 5% of a large financing on a small cap Issuer would be greater than 10% of a small financing for an Issuer with a larger capitalization. The former would result in a greater number of shares being sold to the public through the secondary market than the latter.
3. The instrument penalizes underwriters of small-cap Issuers by placing a ceiling on the amount of shares that can be paid to the underwriter without restriction. Restricted shares issued to an Underwriter would require a legend resulting in a hold period of four months. This increases the risks of the financing to the Underwriter if payment is tied to the exercise and sale of the broker warrants. While we acknowledge point 4 below it should also be

considered that in the case of a restricted share the Underwriter is required to absorb greater market risks given the inability to liquidate broker warrants that are greater than the 5% ceiling noted by the Instrument. Small-cap Issuers generally provide for an option greater than 5% given the risks and size of the offering. Restricting the amount of the offering may deter underwriters from financing small to mid-cap Issuers in some instances. Ultimately it will increase the cost of financing to the Issuers and the general public as compensation will need to come directly from the funds raised.

4. Our experience is that broker warrants are usually exercised and sold at a date which is long after the period of distribution of an issue. Brokers do not generally give-up the "option value" of 18 to 24 month warrants to realize the small spread which may exist between the trading price and new issue price at the time a prospectus distribution is being completed. Imposing the complexity of tracking free-trading and restricted broker warrants will only add cost and further administration with little added protection to investors.
5. While investors who purchase securities issued from the exercise of broker warrants may not have a right of rescission, the rights provided under civil law would protect these purchasers in the event that full, plain and true disclosure was provided in the prospectus.

Section 5 of Proposed National Instrument 41-101

RCC has reviewed comments provided by others to the CSA on the proposed National Instrument and RCC is in agreement with many of the comments made in regard to Section 5 including those made specifically by TD Securities. We would however like to add the following comments in relation to Section 5:

1. In the event of a proxy battle, or other dissident shareholder situation a control block owner could prevent the completion of a financing by refusing to sign a certification. This may place a strain on an Issuer if funds were required to complete a specified transaction. This could also have the added result of causing a transaction to fail because of a failed financing;
2. The certification process could add time and cost constraints necessary to complete a financing as a beneficial owner may feel compelled to conduct additional due diligence, review all due diligence completed or conduct separate due diligence before signing said certification.

RCC would respectfully request that the CSA consider the points made in our comment letter and re-consider the proposals and/or wording noted in the proposed Instrument 41-101.

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Yours respectfully,

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