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New Brunswick Securities Commission
Prince Edward Island Securities Office
Nova Scotia Securities Commission
Office of the Superintendent of Securities, Government of Newfoundland and Labrador
Department of Community Services, Government of Yukon
Office of the Superintendent of Securities, Government of Northwest Territories
Legal Registries Division, Department of Justice, Nunavut

27 October 2011

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Anne-Marie Beaudoin
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Re: Notice and Request for Comments – Proposed National Instrument 51-103 *Ongoing Governance and Disclosure Requirements for Venture Issuers*, Proposed Amendments to National Instrument 41-101 *General Prospectus Requirements*, National Instrument 44-101 *Short Form Prospectus Distributions* and National Instrument 45-106 *Prospectus and Registration Exemptions* and Proposed Consequential Amendments

Dear Sirs / Mesdames:

We have read the Notice and Request for Comments and provide you with our comments in this letter. Capitalized terms in this letter have the same meaning as those in the Notice and Request for Comments, except as otherwise indicated.

We have restricted our comments to those matters in the proposals which are related to our expertise. In this respect, we have one general comment and responses to questions 1, 2, 6, 7, 8 and 9 of the Notice and Request for Comment.

General Comment

Consistency with Stock Exchange Requirements

If adopted, the proposals will significantly change what will be required to be disclosed in prospectus and continuous disclosure forms. Our comments below support several of the proposals.

We believe it is important that the benefits arising from proposals be further enhanced by stock exchanges adopting requirements for transaction-specific and continuous disclosure that are the same as or consistent with the final revised National Instrument 51-103. For example, the requirements for the periods to be covered by financial statements, acceptable accounting principles and acceptable auditing standards for an issuer, a significant acquisition or a reverse takeover acquirer should, to the extent possible, be the same for the Form under National Instrument 51-103 and for the information circular requirements under TSX Venture Exchange Forms 3B1-3B2 and 3D1-3D2.

We therefore encourage the CSA to work with Canadian stock exchanges and other relevant parties to achieve this consistency.

Specific Questions

1. *Do you support the proposal to replace the requirement to file three and nine month interim financial reports (and associated MD&A) with a prescribed framework for voluntary three and nine month financial reporting?*

    a) *If you support this proposal, why? What are the benefits?*

    In our view, the proposal has merit. We are uncertain that the cost of preparing and filing of three and nine month interim financial reports (and associated MD&A) for Venture Issuers justifies the benefits to investors in all circumstances. Therefore we believe it would be reasonable for Venture Issuers and their advisers to determine the most suitable frequency of interim financial reporting to shareholders based upon the nature of the business and other relevant factors. The decision making process could be further enhanced by asking shareholders to approve the proposed frequency of interim reports at each annual meeting.

2. *If we choose not to eliminate mandatory quarterly financial reporting, are the other elements of the Proposed Instrument significant enough to justify changing the venture issuer regulatory regime?*

    In our view, the costs and benefits of all regulation should be continuously evaluated to ensure a fair and efficient capital market. Although the proposal at item 1 above is a significant reform in the Proposed Instrument, it may be necessary to adopt the other

proposals in any event so that there is a platform upon which to evaluate regulatory developments that affect Venture Issuers differently than other issuers.

6. *Would it be less burdensome, or would there be significant time savings, to prepare some subset of quarterly financial reporting, or would the work required to prepare alternative quarterly financial reporting be as onerous as preparing interim financial statements?*

   In our view, the alternative may not result in significant time savings. Any subset of quarterly financial reporting will require, as a minimum, getting the numbers right. The base level of diligence to achieve this will still be significant.

7. *The Proposed Instrument eliminates the requirement to file business acquisition reports (BARs) for significant acquisitions. Instead, it requires venture issuers to provide financial statements of an acquired business if the value of the consideration transferred equals 100% or more of the market capitalization of the venture issuer. Is 100% the correct threshold?*

   a. *If you think that 100% is the correct threshold, explain why.*

   b. *If you do not think that 100% is the correct threshold, explain why. Should the threshold be lower? Please provide your views on an alternative threshold, with supporting reasons.*

   c. *Should financial statements be required at all for these transactions?*

   Reporting issuers must disclose particulars of material changes, including business acquisitions. The information requirements of a BAR are designed to disclose the particulars; the threshold is designed to assess what business acquisitions are material.

   The current and proposed BAR thresholds for Venture Issuers are arbitrary. We have observed cases where the financial statements required in a BAR appeared either immaterial or of little relevance because either: the current threshold was too low, one of the tests in respect of the current threshold was not relevant to the materiality question or the statements of the acquired business itself did not appear relevant to the combined entity.

   Despite the limitations of an arbitrary threshold, on balance, we support both increasing the threshold and streamlining the test to a single consideration. We do not have a view whether a 100% threshold is correct.

8. *The Proposed Instrument does not include a pro forma financial statement requirement for acquisitions that are 100% significant. Do pro forma financial statements provide useful information about acquisitions that is not provided elsewhere in the venture issuer's disclosure?*

   a. *If you are of the opinion that pro forma financial statements do provide useful information. specifically, what information do they provide and how do you make use of that information?*

   In our view, the pro forma financial statements, as opposed to the historical financial statements, will provide the most useful information to investors, since the pro forma financial

statements provide better information regarding the financial position and results of operations of the combined entity. We believe the incremental cost of preparing pro forma financial statements is not large as the issuer will be required to perform much of the due diligence underlying the pro forma statements as a consequence of accounting for the business combination itself.

However, where one of the combining parties has insignificant results of operations, pro forma statements of operations may be less useful to investors. The CSA may wish to consider language requiring only a pro forma balance sheet in these situations, in a manner similar to section 49.2 of TSX Venture Exchange Form 3D1-3D2.

9 *The proposed long form prospectus form for venture issuers provides the subset of "junior issuers" with an exemption that allows them to provide only one year of audited financial statements together with unaudited comparative year financial information in their IPO prospectus. This is consistent with current requirements for junior issuers under Form 41-101F1. Should this exemption be expanded to apply to all venture issuers?*

a. *If you think the exemption should be expanded, explain why.*

b. *If you do not think that the exemption should be expanded, explain why.*

We do not have a view on this question. There are issuers, regardless of size, where audited comparative annual information is important to investors and those where it is not. We note that in many cases, the audit of the comparative year information is less onerous as, by implication, the amounts in the closing balance sheet for that comparative period must be audited.

Should you have any questions or comments on this letter, we would be pleased to hear from you.

Yours sincerely,

Ernst & Young LLP

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