BCF AVOCATS D'AFFAIRES

BUSINESS LAW

Translation

Dear Sir or Madam:

Please find hereunder our answers to the various questions that you raised in connection with your consultation on the new regulatory regime for venture issuers proposed in your Notice and Request for Comment published on July 29, 2011.

We have inserted, in italics, the various questions asked, and then added our responses.

Although they are late, we hope our responses will prove useful to you.

**Questions on how the removal of mandatory first and third quarter financial statement reporting would affect investor protection and capital-raising**

*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?* **YES**

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

In our opinion, these interim financial statements are of less value to most investors. Given the scarce resources of most venture issuers, we believe that releasing the Chief Financial Officer and his team from this obligation would enable them to spend more time on other tasks that could potentially generate value for investors.

*b) If you do not support this proposal, why not? What are your concerns?* **N/A**

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

*3. If you do not 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, do you think it is necessary for venture issuers to file full financial statements and MD&A for their first and third quarters?* **N/A**

*a) If you think full financial statements are necessary, why do you think so? Specifically, how do you use this information?* **N/A**

*b) If you do not think that full financial statements are necessary, is there something other than full financial statements that could provide you with the information that is necessary or relevant for your purposes? Please specify what financial or other information would suffice and explain why*. **N/A**

*c) Does the information noted in (b) vary for issuers based on industry, size or whether the issuer generates revenues? If so, please explain.* **N/A**

*4. If venture issuers were not required to file first and third quarter financial statements, would this deter you from investing in all venture issuers? Why or why not?*

The lack of interim financial statements would not, in our opinion, influence the decision to invest or not.

*5. If you currently invest in issuers in jurisdictions that prescribe semi-annual reporting, please explain why you are comfortable doing so, particularly if you oppose the elimination of mandatory first and third quarter financial statements.* **N/A**

*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?*

The answer to this question necessarily depends on the information required. Whenever possible, it always seems preferable to us to aim for a shorter version rather than requiring alternative information.

***Other financial statement requirements***

*7. The Draft Regulation 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?*

This is a difficult question to answer given the wide disparities that exist between the market capitalization of smaller and larger issuers.

For smaller issuers, the threshold could ensure that acquisitions of little value (in monetary terms) are contemplated. It might be necessary in this case to set a minimum amount that would trigger the obligation.

As for larger issuers, the 100% threshold could ensure that acquisitions of a very large value (in monetary terms) are not contemplated. Here, it might be necessary to set a maximum amount that would trigger the obligation.

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

*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.* **N/A**

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

If the objective is to rapidly provide the information to the market, this requirement is useless. A more exhaustive disclosure of certain financial information related to the target in the press release would be more useful in this regard.

*8. The Draft Regulation 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?*

We do not think that pro forma financial statements contain useful information.

*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?* **N/A**

*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.*

In our view, it would be beneficial to expand this exemption given the costs and complications associated with an audit for past fiscal years.

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

***Governance requirements and executive compensation disclosure***

*10. The Draft Regulation requires an audit committee to be composed of at least three directors, a majority of whom are not executive officers or employees of the venture issuer or an affiliated entity of the venture issuer. Should control persons be added to this list, similar to section 21(b) of Policy 3.1 of the TSX Venture Exchange Corporate Finance Manual?*

*a) If you think that control persons should be added, explain why.* **N/A**

*b) If you do not think that control persons should to be added, explain why.*

We see no point in adding control persons to the list. We believe those individuals are well placed to fill the role. We hope the Venture Exchange will amend its policies accordingly.

*11. The Draft Regulation requires that director and executive officer compensation as well as corporate governance disclosure be provided in a venture issuer's annual report instead of in its information circular. The information circular directs investors to the issuer's annual report for this information. We are attempting to reduce duplication for venture issuers, but want to balance that goal with ensuring that investors have adequate information available for decision making purposes, namely when they make their decision to elect directors.*

*a) Should venture issuers be required to duplicate director and executive officer compensation disclosure in the document that shareholders have on hand when they vote for directors, the information circular?* **NO**

*i) If you think that executive compensation and corporate governance disclosure should be provided in both the annual report and the information circular, explain why.* **N/A**

*ii) If you do not think that it is necessary to provide executive compensation and corporate governance disclosure in both the annual report and in the information circular, explain why.*

In our view, it is important to avoid duplicate disclosure. We think investors are more interested in reading a short document than a voluminous one, and duplicated disclosure has the effect of making documents more voluminous. Referencing the

pertinent section in the annual report seems sufficient to us given how easily the annual report can be obtained via the Internet.

*12. In the Draft Regulation, we have replaced the requirement to disclose the grant date fair value of stock options or other securities-based compensation in the executive compensation disclosure with a requirement to disclose other details about stock options, including amounts earned on exercise. We made this change as a result of feedback received regarding the relevance and reliability of the grant date fair value of stock options for venture issuers. Does specific disclosure of the grant date fair value and the accounting fair value of stock options or other securities-based compensation provide useful information for venture issuers? If so, please explain.*

We do not see the disclosure of the grant date fair value as being useful.

***General disclosure requirements***

*13. The Draft Regulation would permit a capital pool company (CPC) to satisfy certain of its annual report disclosure obligations by referring to disclosure previously provided in its initial public offering prospectus. Should CPC's be exempted from further aspects of the annual or mid-year report requirements? If so, which requirements?*

No comment.

***Further comments invited***

*14. We also invite further comment. If you have suggestions about additional steps that we could take to tailor a regulatory regime that is directed at the venture market, please provide them.*

As for disclosure relating to governance and ethical conduct (section 41) of Form 51-103F1, we do not find it very useful. In many cases, because of an issuer's small size, the "honest" disclosure of the processes or measures in place could make them appear as shortcomings. It could have the adverse effect of prompting small issuers to paint an "embellished" picture of the situation by describing processes and measures that do not formally exist. We do not think that removing this requirement would impact the quality of the information provided.

For similar reasons, we do not think the disclosure under section 34 of Form 51-103F1 should be required.

We believe disclosure should focus on compliance with rules, not on a description of the processes and measures in place. Thus, for example, it might be possible to rework subsection 3(a) of section 41 to require disclosure in the annual report of all conflicts of interest identified by the board of directors.

The securities team at BCF, LLP