Dear Sirs

In response to your request for comments on the proposed amendments to National Instrument 62-103 EARLY WARNING SYSTEM AND RELATED TAKE-OVER BID AND INSIDER REPORTING ISSUES, I have read the response letter prepared by CNSX Markets (attached) and agree with it.

The small cap sector is at critical juncture. Mineral exploration companies are particularly vulnerable because by definition, we spend money, we do not make money. Our top line revenue is usually zero and we are almost entirely dependent on external sources of funding to do the work we do. I like to think that the work we do is important as new sources of raw materials need to be discovered in order to replace ones that are being depleted. Our work is inherently risky and our investors are well aware of the risks. There is potential for extraordinary gain and also the potential for great, if not total loss. This sort of investing is not for the faint of heart. Any policy that impedes our ability to raise funds will not be a welcome one. The task is difficult as it is.

The newly proposed policies do make a great deal of sense for larger, revenue generating, issuers. The investing public does need full disclosure to be confident in their investments. These same policies however, do little to increase investor confidence in junior companies, in my opinion they do the opposite. For an exploration company to be successful and inspire confidence in it must spend its time and funds on sourcing, discovering and exploring potential new mineral projects. Currently far to much energy and funds are spent on administration, leaving little to do the work we all want to do and need to do. I feel investors in junior markets would be much better served by a regime that ensure funds are spent "in the ground" and management spends more time in the field than behind the desk.

On behalf of the board,

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July 10, 2013

Dear Mesdames/Sirs:

Re: PROPOSED AMENDMENTS TO

NATIONAL INSTRUMENT 62-103 EARLY WARNING SYSTEM

We appreciate this opportunity to comment on the proposal by the Canadian Securities Administrators to amend the early warning system established in National Instrument 62-103. CNSX Markets Inc. ("CNSX Markets") has concerns that the proposed changes will materially reduce the capital available to small and medium sized companies in Canada from institutions and other large investors. For the reasons described in greater detail below, CNSX Markets submits that the public interest would not be served by implementing the key features of the proposals for small and medium capitalization companies.

Background – CNSX Markets

CNSX Markets was established almost 10 years ago to provide a stock exchange for listing and trading Canadian reporting issuers. Many of the issuers can be categorized as small and micro-

cap companies. We are, therefore, keenly aware of the challenges faced by these companies both in attracting capital as they are formed, and then additional capital to fund the growth of the company. These companies are also an important force in growing the Canadian economy. CNSX-listed companies have raised more than one billion dollars in financing since the exchange began operations in 2003, money that has been invested in job creation, research and development, mineral and oil and gas exploration and professional services. Small and medium enterprise companies listed on the TSX Venture Exchange and the Toronto Stock Exchange have raised billions more in capital during the same period and to the same effect. Measures that either restrict the flow of capital to these companies, or have the effect of increasing the cost of capital raised, will have a negative effect on economic development in Canada: needed jobs will not be created, untapped resources will not be developed and the demand for legal, corporate finance and accounting services will be reduced. As a public policy matter we should be attempting to encourage the flow of capital at reasonable cost to these companies.

Concerns with the CSA's Proposals

In reviewing the impact of the CSA's proposals with issuers, investors and dealers active in the CNSX Markets' community, we have been made aware of several concerns:

- Many institutional investors have advised that they will purchase shares up to the threshold, but not over, in order to avoid triggering the early warning system. In the event that the threshold is reduced from 10% to 5%, these investors will sell half of their holdings in each portfolio company to avoid application of the new limit. This will have a devastating impact on the share prices, cost of capital, and access to capital for these companies.
- Lowering the reporting threshold from 10% to 5% also has the impact of effectively doubling the minimum market cap threshold that many institutions will use, thereby cutting many small cap companies off from an important source of capital, and causing a permanent reduction in trading liquidity within the small cap space.
- Other investors who routinely purchase more than the 10% threshold are concerned with the changes proposed to the reporting process: We are advised that filings under the current reporting regime are usually prepared without the benefit of professional advice. The forms proposed by the CSA for the new reporting regime, given the greater disclosure scope, are more likely to be prepared by the investor following consultation with professional advisors. The cost associated with this advice will increase the reluctance of the investor to exceed the reporting threshold.
- Investors who would normally qualify as Exempt Institutional Investors tend not to take advantage of the Alternative Monthly Reporting ("AMR") regime when investing in small cap stocks. Although their primary investment intention is "passive", given the nature

of investment in small cap companies, it is not unusual for the investor to engage with company management and its board on the company's prospects, future capital formation plans, governance, and a number of other issues. This level of engagement appears to be beyond the scope contemplated by the AMR, and thus renders the attempt to provide an element of relief for passive investors ineffective for investors in these companies.

- Dealers working with large investors in these companies will also see their costs increase. If the threshold is reduced to the 5% level, and the more comprehensive reporting scheme is put in place, the frequency and complexity of reporting for clients can be expected to increase.
- Dealers that invest as principal in early stage companies in the small cap space will be faced with another compliance burden and may have to report positions that are below the level where there is a requirement that they be placed in escrow when the company goes public.
- Issuers are concerned, not surprisingly, with the adoption of measures that will see forced selling pressure on their shares, and additional barriers in place for institutional investors (and their dealer advisors) to invest in meaningful size in their companies.

In summary, all parties share the concern that the cost of capital for small and medium cap issuers will rise if the measures proposed in the CSA Notice and Request for Comment are adopted without exception.

Recommendations

CNSX Markets believes that there is an approach that will better serve the public interest. As suggested in question 13 in the Notice and Request for Comment, CNSX Markets recommends that the proposals not apply to "venture issuers". Exempting issuers listed on the Canadian National Stock Exchange and the TSX Venture Exchange would be a good start towards avoiding the issues raised by the community and summarized above. That still leaves us, however, with the question of the small and medium cap companies listed on the Toronto Stock Exchange.

We suggest that a market capitalization threshold be established for TSX listed companies so that those that aren't in the large cap group aren't affected by the proposed early warning thresholds. It would be simple to apply a cut-off value as of December 31 in each year and therefore easy for investors to identify the companies that are subject to the new reporting levels and those that are not. If the line were drawn at a market cap of $400 million then most of the small and medium sized companies would be excluded from the lower reporting levels.

Above a level of $400 million a 5% investment would be just above $20 million and that would be reportable. A $1 billion fund would be able to invest up to $20 million in a company at or

above the threshold level, one fiftieth of its portfolio, thus allowing for diversification of the portfolio without a significant increase in the burden of compliance.

Although this approach would sharply narrow the number of companies subject to the new reporting rules, it would be consistent with the aims set out by the CSA for the reforms. Consistency in approach with our major trading partners is a laudable goal, but only when dealing with comparable circumstances. The fact of the matter is that neither the US nor the UK has a robust equity capital formation system in place for early stage companies. In determining the correct approach for “early warning”, the application of a 5% reporting threshold to small cap companies would not have been within the realm of contemplation of either regulator. Given the importance of small cap finance to the Canadian securities industry, and the health of the Canadian economy, the impact on early stage issuers should be front of mind for the CSA on these issues. Using the “venture issuer” and $400 million market cap tests would ensure that Canadian issuers impacted by the new rules would be of comparable size and business maturity with their counterparts in the United States and the United Kingdom covered by the lower reporting thresholds and broader disclosure requirement.

We would be pleased to discuss these issues with the regulatory community further.

CNSX Markets Inc.

Richard Carleton

CEO CNSX Markets Inc.