ANNEX A

Summary of Comments and CSA Responses

Proposed National Instrument 51-103 *Ongoing Governance and Disclosure Requirements for Venture Issuers*

Item	Subject	Summarized Comment	CSA Response
Comments in response to questions in CSA Notice dated July 29, 2011			
1. Quarterly interim financial reporting (Question 1)			
1.1. Section 13 of Rule published for comment	*Removal of mandatory interim financial reports – general comments in support*	Sixteen commenters support the removal of the requirement for mandatory interim financial reports. Their reasons include the following: • Venture issuers will save considerable time and effort, which will allow management to focus more on operational success. • Other disclosure requirements (e.g. press releases, material change reports, and mid-year report) in concert with the annual and mid-year financial statements provide sufficient and relevant information to investors. • Reduces and simplifies the regulatory burden without harming investor ability to obtain relevant information about the issuer. • Costs of preparing and filing three and nine month interim financial reports may not benefit investors in all circumstances, however it is reasonable to allow venture issuers and advisers to determine appropriate frequency of interim financial reporting based on the nature of the business and other relevant factors. • Semi-annual reporting may be sufficient for investors to be able to assess early stage companies without significant operations.	We thank the commenters for their input, but the lack of overall support for the proposal to eliminate mandatory interim financial reports, and in particular concerns related to timely access to relevant financial information, has led the CSA to abandon the proposal to eliminate mandatory interim financial reports. The CSA is now proposing to eliminate the mid-year report and introduce an interim report for all interim periods. The interim report consists of a title page, quarterly highlights, which require a short discussion of the venture issuer's operations and liquidity, the interim financial reports and a certificate from the CEO and CFO. A venture issuer may, in addition to the quarterly highlights, provide more traditional MD&A in the form prescribed in NI 51-102 or in accordance with the information required by items 18, 20 and 21 of the Form 51-103F1. If a venture issuer wants to file NI 51-102 documents in lieu of documents required under Proposed NI 51-103, exemptive relief is required.

		• Quarterly reports are not as important to investors because investors place more value on the issuer's management, strategic plan, properties, capital structure, liquidity, cash and short-term investments. • Elimination of interim financial reports is most beneficial to venture issuers with small market capitalization and venture issuers which do not require additional capital in the near term. • Allows venture issuers wanting comparability to TSX issuers or concerned with graduating to TSX to provide interim financial reports. • Underwriters, agents, or investors can exert pressure on venture issuers needing access to the capital markets to provide interim financial reports; however, this could result in delay in financing until the reports are prepared. • Semi-annual reporting aligns with requirements in other jurisdictions such as Australia, the UK, Hong Kong and South Africa (no harm to reputation). • Elimination of the 1st quarter interim report will not significantly alter the disclosure record as it is finalized only shortly after the annual financial statements. • Majority of shareholders and investors do not read financial statements or MD&A.	
1.2. Section 13 of Rule published for comment	*Removal of mandatory interim financial reports – general comments against*	Eleven commenters do not support the removal of the requirement for mandatory interim financial reports. Their reasons include the following: • Investors need certain information in interim financial reports (for example cash position,	We acknowledge the comments. As discussed in section 1.1 of this summary, the CSA has abandoned the recommendation to eliminate mandatory interim financial reports, abandoned the proposed mid-year report and proposes, for the first, second and third

		operating expenses, accounts payable, stock options and warrant status and related party transactions, commitments to spend on properties, burn rate). • There would be an annual eight month delay in knowing working capital. • Disclosure gap will impact the ability of securities regulators to oversee venture market. • Investment community will view venture issuers as sub-tier investments with limited information. • Boards will have difficulty determining what needs to be disclosed and the detail of the information in the interim period if they opt for voluntary disclosure. • Removal of interim financial reporting may have adverse impact on corporate governance: o One commenter's experience is that most issuers take corporate governance seriously as a result of timely reporting requirements. o Quarterly reporting allows the board to discover accounting inadequacies earlier. • Reducing the disclosure for venture issuers will make the transition from TSX-V to TSX more difficult. Creates incentive to remain on TSX-V (lesser disclosure requirements). • Allowing an entire year to pass before audited financial statements are prepared (even if mid-year interim financial statements are provided) would increase the risk to investors considerably. • Should not look to other jurisdictions with semi-annual reporting (such as Australia and the UK)	interim periods, an interim report consisting of a title page, interim financial report, quarterly highlights and a certificate from the CEO and CFO.

		because: o They have never implemented quarterly reporting. o They do not differentiate between senior and junior segments. o In some cases issuers in certain industries (e.g. mining) must provide some type of quarterly information. o Increasing number of Australian resource companies have chosen to list on Canadian exchanges suggesting the benefits of access to capital and a strong investor base outweigh the cost of filing additional financial statements. • For non-materials venture companies, reduced reporting may lead to higher cost of capital. New investors may defer investment until the next financial disclosure occurs. • The CSA has noted that venture issuers get a limited amount of analyst or broker attention. This suggests information on venture issuers may already be limited. The proposal does not address the limited analyst or broker attention but reduces disclosure requirements which may exacerbate the problem. • The level of liquidity of venture issuers is low partly because of the lack of material news. Removal of interim financial reports will contribute to low liquidity. Financial statements and MD&A provide news the market can use to trade. • Interim financial reports not likely to be duplicative of other disclosure. They supplement material	

		change reports by providing the financial effects of material changes in a business. Most material change reports do not report financial effects of transactions and events. • Comparability among issuers decreased if some report semi-annually and others quarterly. For example, under certain accounting principles, impairment assessments are required at the end of a reporting period and may result in differences in the timing and amount of impairment charges for entities with different reporting frequencies. • Certain issuers with substantial foreign operations only receive information from their foreign operations at reporting dates. Without a requirement to prepare quarterly information, the issuer will not receive timely information regarding the performance of these foreign operations. • May require auditors to apply more extensive procedures, particularly if management controls and procedures to identify subsequent events are not adequate and internal financial information not prepared in accordance with IFRS. Cost of audit may reduce benefits of discontinuing quarterly reporting. • Underwriters generally want comfort from a company's auditors on changes in assets, liabilities, revenues and earnings subsequent to most recent financial statements included or incorporated by reference into a prospectus, which could impact timing and cost of capital raising activities. • Hong Kong Exchange mandates quarterly reporting for junior market and is expected to move to a quarterly regime for its senior market.	

		• Quarterly financial reporting enables the establishment of the best financial forecasts, is crucial for venture issuers whose operations are seasonal, and the omission of quarterly financial reporting delays and impacts investors' ability to intervene in a timely and effective manner. • Preparation and dissemination of interim financial reports relatively straightforward and not expensive. Present requirements are not burdensome. Any costs savings would be outweighed by the higher cost of capital for the issuer.	
1.3. Section 13 of Rule published for comment	*Removal of mandatory interim financial reports – modified interim report*	Thirty-two commenters support the removal of the requirement for mandatory interim financial reports with certain modifications. Their suggestions include the following: • Recommend that interim financial reports be replaced with 3 and 9 month reports that address the venture issuer's liquidity, working capital, capital resources, main uses of cash in the quarter and changes in capital structure as at those dates because investors place emphasis on a venture issuer's liquidity, capital resources and progress towards its corporate goals (Australia an example). Timely disclosure of information relating to expenditures and cash flow assist the market to understand whether these entities are achieving their goals. • Recommend a 3 and 9 month report that includes: a) liquidity, working capital, capital resources, changes in capital structure and principal uses of cash, and b) exploration or research program information because the market may be interested in the company's cash on hand, burn rate, capital	We thank the commenters for their input, but the creation of a new form of financial reporting that would operate in parallel with and would not be wholly contemplated by or compliant with IFRS is not appropriate at this time.

		resources, and progress towards its corporate goals. Do not think CEO or CFO certification should be required for this interim information.	
1.4. Section 13 of Rule published for comment	*Removal of mandatory interim financial reports – certain issuers only*	Three commenters support the removal of the requirement for mandatory interim financial reports for certain smaller issuers only. Their reasons include the following: • May be appropriate to make interim financial reporting optional for materials venture companies (gold, metal, precious metal investments) as primary value drivers are drill hole results, scoping studies, prefeasibility studies or resource updates. • Exception is the smallest exploration stage venture issuers where cash flow, liquidity, updates on exploration and significant transactions are all that is required for the quarter. • May be appropriate for junior issuers that are inactive or in the early stages of development. • Interim financial reporting focused on operational expenditures, cash flows, liquidity and related party transactions (accompanied by management certificates) for small exploration stage companies in certain industry sectors may be appropriate.	We thank the commenters for their input, but the CSA is of the view that a further stratification of the regulatory regime for junior issuers is not appropriate at this time.
2. Other changes worth it if we choose not to eliminate mandatory quarterly interim financial reporting (Question 2)			
2.1. Rule published for comment	*Is it worth it? – general comments in support*	Forty-three commenters support the proposed rule even if we choose not to eliminate mandatory quarterly financial reporting. Their reasons include the following: • Changes to the BAR reporting requirements justify the change. • Having one rule/instrument will help focus	We acknowledge the comments.

		management to provide quality disclosure and will make regulations less onerous to comply with. • Implementation of a rule tailored to venture markets is justified owing to the role of venture issuers in the Canadian equity markets and the characteristics of Canadian venture market (typically don't have administrative and financial resources of larger companies). • The adoption of the other proposals may be necessary to create a platform suitable to evaluate the impact of regulatory developments on venture issuers. • The other proposals will reduce the regulatory burden. • Annual report will simplify and streamline reporting requirements for venture issuers. • New governance rules and the requirement that a majority of members of the audit committee be independent are viewed favourably.	
2.2. Rule published for comment	*Is it worth it? – general comments against*	Six commenters do not support the proposed rule without eliminating mandatory quarterly financial reporting. Their reasons include the following: • There would be higher audit costs for the annual report in order to ensure none of the financial information included in the annual report contradicted the financial statements. • The inclusion of the requirement to prepare an annual report places higher obligations without corresponding benefit as there are very few short form offerings conducted by exploration mining	We are of the view that the following initiatives make the proposed rule worthwhile despite the removal of the proposal to eliminate interim financial reporting: • introduction of the annual report; • streamlined disclosure for interim periods; • elimination of BARs and their replacement with major acquisition reporting; • elimination of a requirement for pro-forma statements for major acquisitions; • new corporate governance requirements relating to conflicts of interest, related party transactions and insider trading;

		companies in Québec. o The mining information required in the annual report will require much more time from geologists. o The inclusion of the management information in the annual report requires venture issuers to produce the information several weeks earlier than they would have to under the current regime. • Requiring more disclosure, benchmarks and narrative will unnecessarily increase the burden on companies rather than allowing certain companies to respond to market demand. Will increase burden for most companies, except oil and gas producing companies and other revenue generating companies. • The implementation of the proposal is not justified owing to costs and challenges to venture issuers. Beneficial elements of the proposal could be imported into existing regime (e.g. significant acquisition threshold). • Many of our clients were not in favour of imposing the requirements for comprehensive annual and semi annual reports, if that was simply in addition to their current disclosure requirements. They want the administrative burden and cost reduced, not increased.	• a streamlined information circular; • tailored director and executive compensation disclosure; • elimination of disclosure of grant date fair value of stock options.
3. Are full financial statements necessary? (Question 3)			
3.1. Section 13 of Rule published	*If interim financial reports mandatory, are full reports*	Three of the commenters believed full interim financial statements were necessary. Comments about applicability and concerns with alternate reporting were	We acknowledge the comments.

for comment	*necessary*	made / expressed by three additional commenters. The reasons submitted by commenters include the following: • Preparation of a subset of financial information may be less onerous but may not be relevant or reliable as, or comparable to, information prepared under GAAP. • If no interim financial reports, there shouldn't be some lesser form of financial information that isn't supported by IAS 34. • Disclosure of a subset of financial information increases risk of deliberate or inadvertent misleading disclosure. This may encourage disclosure of financial measures without having provided the full financial picture or prepared the full internal financial statements. Without the discipline of a full set of financial statements, the risk of error in this material would be unreasonably high. • An alternative to interim financial reports may not result in significant time savings as preparing accurate numbers requires significant base level diligence. • An alternative to interim financial reporting would not be beneficial as it would impose a new reporting regime on venture issuers and would minimize any benefit gained by eliminating the interim financial reports owing to the need to learn new reporting requirements. Also, other continuous disclosure requirements and applicable securities laws require issuers to disclose material information and material changes between the annual report and mid-year report minimizing the utility of an alternative report.	

		• Current regime appropriate for venture issuers with the exception potentially being small, exploration stage companies in certain industry sectors.	
3.2. Section 13 of Rule published for comment	*Alternative to full interim financial reports are acceptable*	Thirty-eight of the commenters suggested an alternative to full interim financial statements would be acceptable. Suggestions submitted by commenters include the following: • Remove MD&A and retain only key notes in the interim financial reports. Key notes would include Going Concern, Share Capital (including options and warrants), Property, Plant and Equipment, Exploration and Evaluation Assets, Commitments and Related Parties because the key information is in the numbers of the financials and the news releases issued during the quarter. • Remove interim MD&A as interim MD&A is not providing much additional information. • Remove the requirement to provide interim MD&A and certifications. • Report cash on hand, shares issued, fully diluted share position with detail on the number of options and warrants exercisable at each price. Suggest including CEO / CFO certification accompanying any financial disclosure to ensure accuracy. • More focused quarterly reporting may be merited for small, exploration stage companies in certain industry sectors (operational expenditures, cash flows, liquidity and related party transactions). • If the aim is to reduce disclosure requirements, an incremental, and less extensive approach is preferable to elimination of interim financial	We acknowledge the comments related to alternatives to full interim financial statements. As discussed in section 1.1 of this Summary, we propose the removal of MD&A for all interim periods and replacement with quarterly highlights. The CSA notes that IAS 34 states that the purpose of interim financial reporting is to provide an update on the latest complete set of annual financial statements. Given this, less note disclosure is required in an interim financial report than in a full set of annual financial statements. However, as is set out in section 1.3 of this Summary, the CSA is of the view that an alternative form of financial reporting for interim periods, which is not contemplated by IFRS, is not appropriate at this time.

		reports: o a) adopting UK approach – interim reporting (no financials or management report), o b) scaling back requirements in interim financial reports or o c) requiring issuers to maintain and publish a website (UK). • If full interim financial reports are not provided, at least the cash and debt balances of exploration and development stage companies should be provided. • Adequate quarterly reporting would include the balance sheet, income statement, statement of cash flows (and related notes) but not the MD&A. • Recommend interim reports that include: a) liquidity, working capital, capital resources, changes in capital structure and principal uses of cash, and b) exploration or research program information because timely disclosure of information relating to expenditures, and cash flow generally, assist the market to understand the extent to which these entities are achieving their goals. Do not think CEO or CFO certification should be required for this interim information. • Recommend a 3 and 9 month report that includes: a) liquidity, working capital, capital resources, changes in capital structure and principal uses of cash, and b) exploration or research program information because the market may be interested in the company's cash on hand, burn rate, capital resources, and progress towards its corporate goals. Do not think CEO or CFO certification should be	

		required for this interim information.	
4. Would removal of Q1 and Q3 financial statements deter investment in venture issuers? (Questions 4 and 5)			
4.1. Rule published for comment	*Would not deter from investing*	Forty-two commenters would not be deterred from investing. Their reasons include the following: • Relevant information when investing is 12 month cash in hand, management, issuer's ability to acquire good properties and raise money. The financial statements don't provide that information. • Annual and mid-year financial reporting, combined with press releases and other sources of company information, are sufficient to invest in venture issuers. • The absence of quarterly information would not of itself deter investment in venture issuers where alternative interim financial reporting is required and provided. • Investment decisions for exploration stage mining companies are made on the basis of a) officers and directors of the company, b) the mining projects, c) the capital structure and d) cash and short term investments which can be found in most recently published financial statements, press releases and on websites. • Reputation of venture issuers would not be harmed because semi-annual reporting aligns with requirements in other jurisdictions such as Australia, the UK, Hong Kong and South Africa (no harm to reputation). • Removal of interim financial reports would not deter investment but would require more caution and	We acknowledge the comments.

		could lead to valuation discounts.	
4.2.	*Would deter from investing*	Two commenters indicated that the removal of the interim reports would deter but not stop them from investing for the following reasons: • There would be less confidence and there would be frustration when surprises occurred due to reduced and delayed disclosure. Seldom invests in issuers that report semi-annually. • Would invest in foreign issuers that only file bi-annual financial reports, however, those investments would be in issuers that are highly capitalized and have diverse and available sources of information.	We acknowledge the comments.
5. Less burdensome or as onerous to prepare some subset of quarterly financial reporting? (Question 6)			
5.1. Section 13 of Rule published for comment	*Less burdensome*	Thirty-two commenters indicated the preparation of a subset of quarterly financial reporting would be less burdensome. Their reasons include the following: • Providing supplementary financial information focused on liquidity and capital resources would significantly reduce the reporting burden and would not place an undue burden on the issuer and management as good corporate governance practices require regular monitoring of financial and operational results, including the preparation of cash-flow analysis and balance sheet data. • A subset of quarterly financial reports would provide some savings in time and capital but not as significant as not having to file the quarterly reports.	We thank the commenters for their input, but as is set out in section 1.3 of this Summary, the CSA is of the view that an alternative form of financial reporting for interim periods, which is not contemplated by IFRS, is not appropriate at this time.
5.2. Section 13 of Rule published	*As onerous*	Seven commenters indicated the preparation of a subset of quarterly financial reporting would be as onerous.	We acknowledge the comments.

for comment		Their reasons include the following: • Unless only the MD&A and certain unimportant financial notes are removed, an alternative form of interim financial reporting is not worthwhile. • Producing only a Q1 and Q3 balance sheet and statement of comprehensive income would save management the time of preparing the notes to the financial statements and the MD&A; however, there would still be a lot of accounting work because the balance sheet and statement of comprehensive income would have to be prepared in accordance with IFRS. It would remain to be seen if the approval, certification and deadlines would remain the same. • An alternative to interim financial reports may not result in significant time savings as preparing accurate numbers requires significant base level of diligence. • Alternative disclosure would require issuers, counsel and other market participants to learn a new reporting regime. In addition, other disclosure requirements (material change reporting) would provide similar disclosure minimizing the utility of alternative disclosure.	
5.3. Section 13 of Rule published for comment	*It depends on the subset*	Two commenters indicated it depended on the nature of the subset of financial information as to whether the subset would be less burdensome or as onerous. Their comments include the following: • It is preferable, whenever possible, to aim for a shorter version, as opposed to alternative information.	We acknowledge the comment.

6. Is 100% market capitalization the correct threshold for financial statements where there has been a significant acquisition? (Question 7)			
6.1. Subsection 1(1) "major acquisition" of Rule published for comment	*Correct threshold*	Thirty-eight commenters indicated 100% is the correct threshold to require financial statements where there has been a significant acquisition. Their reasons include the following: • Although more attention should be given to determining what a "business" is, 100% is the correct threshold for determining if a business is sufficiently material. • 100% market capitalization is indicative of a transformational transaction for the issuer. • It may be appropriate to remove the requirement to include financial statements regardless of the significance of the acquisition. • If there are financial statement requirements for acquisitions, the 100% threshold is appropriate as it matches the acquisition of a "primary business" concept in NI 41-101.	We thank the commenters for their input on the 100% threshold. We are of the view that reviewing the concept of "business" would have to be considered in a broader policy project that also involved a review of its use in National Instrument 51-102 *Continuous Disclosure Obligations*, and likely other instruments. This review is outside the scope of the current project. We agree that 100% market capitalization is indicative of a transformational transaction for venture issuers and is an appropriate threshold. This was one of the impetuses for proposing the 100% threshold. However, we are of the view that financial statements are necessary for certain transformational transactions, including major acquisitions.
6.2. Subsection 1(1) "major acquisition" of Rule published for comment	*Incorrect threshold*	Nine commenters indicated 100% is not the correct threshold to require financial statements where there has been a significant acquisition. Their reasons, and suggestions for alternative thresholds, are: • Supports 50% as the significant acquisition threshold because this level imposes sufficient onus and reporting. • The threshold for a significant acquisition should be 60% as opposed to 100%. • Threshold for requiring financial statements on reverse take-overs and acquisitions should be 40% because the financial statements provide useful	We thank the commenters for their input, but we are of the view that 100% is the correct threshold because it is indicative of a transformational transaction for venture issuers. This threshold, combined with other reporting requirements in the instrument, such as the requirements for material change reporting, including a requirement to disclose related entity transactions (see Form 51-103F2 *Disclosure of Material Change or Other Material Information*), the required annual report disclosure and the requirement to file press releases that contain financial information, captures the information that is important for investors to use in making an informed investing decision. Further, if the assets in question are material assets for the venture

		information for investors. • Support 25% threshold. CSA should conduct benchmarking exercise of requirements of other jurisdictions before altering the significance threshold or eliminating the BAR requirement. • Increase of threshold for significant acquisitions is inadvisable and inconsistent with motivating principles under securities law. • Financial statement requirements for recently completed acquisitions or probable acquisitions are based on BAR thresholds. As such, it would be appropriate to consider a lower threshold where an issuer is filing a prospectus or information circular because information about recently completed acquisitions or probable acquisitions is of particular relevance to investors who are deciding whether to purchase securities. • 100% threshold for significant acquisitions is too high because of the value of the financial statements in providing certain asset specific information within the notes that would be unavailable post merger / amalgamation. Do not believe issuers would incur additional costs where financial statements are historical and already filed. • For smaller issuers, an acquisition with little monetary value would be captured. For larger issuers, acquisitions with large monetary value would be captured. Better to set minimum and maximum amounts in addition to threshold. • For many significant acquisitions the issuers will not have to disclose the financial statements despite having likely prepared them for their internal	issuer, they should be disclosed in the business combination note disclosure. We believe that, when considered in its entirety, the instrument strikes an appropriate balance between an investor's need for disclosure (investor protection) and the venture issuer's need for a streamlined and efficient disclosure system (promoting efficiency in the capital markets). The venture market in Canada is unique and is not directly comparable to most other markets. We do not think that benchmarking to requirements in other jurisdictions is appropriate. In the offering context an issuer must meet the standard of "full, true and plain" disclosure. Where an acquisition is under the 100% threshold, an issuer will have to evaluate its proposed disclosure and make a determination as to whether additional disclosure would be necessary to meet the applicable standard. Smaller acquisitions, in terms of dollar value, will be more significant to smaller venture issuers than to larger venture issuers. Financial statements should be disclosed where an acquisition is a major acquisition regardless of the dollar value of the acquisition. However, where an acquisition is not a major acquisition, an issuer may still be required to provide material change reporting. We are of the view that this disclosure should be relative and based on materiality. Setting an arbitrary minimum and maximum amount in terms of dollar value is not appropriate at this time. It is our understanding that not all issuers prepare financial statements and, of those that do, the financial statements may not be prepared in accordance with the

		purposes and evaluations.	financial disclosure standards applicable to public companies. As such, financial statements may not be available or may require significant improvement for disclosure purposes. We are of the view that the cost associated with making this a requirement outweighs the benefit that would be gained.
6.3. Subsection 1(1) "major acquisition" of Rule published for comment	*It depends on whether there is quarterly reporting*	One commenter indicated 100% is not always the correct threshold to require financial statements where there has been a significant acquisition. Its reasons are as follows: • If the requirement to file quarterly financial reporting were maintained then 100% threshold would be acceptable since disclosure would be included in quarterly reporting. If Q1 and Q3 not required then should be 50%. Along with the percentage of market capitalization, decision to consolidate financial statements should be an indicator of materiality.	We acknowledge the comment. As discussed in section 1.1 of this summary, the lack of overall support for the proposal to eliminate mandatory interim financial reports has led the CSA to abandon the proposal to eliminate mandatory interim financial reports.
7. Do pro forma financial statements provide useful disclosure? (Question 8)			
7.1. Rule published for comment	*Pro forma financial statements provide useful disclosure*	Five commenters indicated that pro forma financial statements provide useful disclosure. Their reasons include the following: • Valuable for a new company and new investors. Provide a starting position for the new company including the effect of the usual funding associated with the acquisition. • Although IFRS 3 and proposed IFRS 3R require the disclosure of pro-forma revenue and profit and loss for business acquisition, the disclosure is less than the current BAR requirements. The transparency of pro forma adjustments directly attributable to	We thank the commenters for their input. We are of the view that the information provided in pro forma financial statements is largely available elsewhere in an issuer's disclosure. As this disclosure is somewhat duplicative, we do not think it necessary to require pro forma financial statements, even if an issuer has prepared them for their own purposes. However, in the context of a long form prospectus, we are of the view that a requirement to provide pro forma financial statements is appropriate where there has been an acquisition of a business or businesses that would be the primary business of the issuer for the

		business combination is reduced when comparing the information currently provided in the BAR (under NI 51-102). • Does not support the removal of the pro forma financial statements because the venture issuer will likely prepare pro forma financial statements in order to evaluate and understand the implication of a major transaction. If they are available, the venture issuer should provide them.	purpose of section 31.1 of Form 41-101F4.
7.2. Rule published for comment	*Pro forma financial statements do not provide useful disclosure*	Forty-two commenters indicated that pro forma financial statements do not provide useful information. Their reasons include the following: • Pro forma financial statements are a mathematical exercise of combining information of an acquirer and its target, which is of little use to investors. • Do not provide useful information about acquisitions that would not also be provided elsewhere in required disclosure. • Do not believe pro-forma financial statements as contemplated in the current requirements provide any useful information.	We acknowledge the comments. However, in the context of a long form prospectus, we are of the view that a requirement to provide pro forma financial statements is appropriate where there has been an acquisition of a business or businesses that would be the primary business of the issuer for the purpose of section 31.1 of Form 41-101F4.
8. Should the junior issuer exemption under Form 41-101F1 be expanded to all venture issuers? (Question 9)			
8.1. Section 32.5 of Form 41-101F4 published for comment	*Only one year of audited financial statements together with comparative year financial information in their IPO prospectus*	Ten commenters supported the expansion of the junior issuer exemption. Their reasons include the following: • What happened two years ago is generally not relevant to venture issuers. • Should be sufficient for all venture issuers that in many cases have only basic accounting records for prior periods. • Support expansion of junior issuer exemption in	We thank the commenters. However, we are of the view that the junior issuer exemption, as it currently exists, strikes an appropriate balance between an investor's need for disclosure and the costs of that disclosure to the venture issuer. We note that venture issuers may seek exemptive relief from the requirement to have two years of audited financial statements.

		prospectus because of the costs and complications associated with an audit for past fiscal years.	
8.2. Section 32.5 of Form 41-101F4 published for comment	*Exemption should not be expanded*	Thirty-five commenters did not support the expansion of the junior issuer exemption. Their reasons include the following: • The current exemption strikes the appropriate balance between the need for disclosure of audited historical financial information and enabling investors to have reasonable access to information on issuers whose assets, revenue and equity are relatively small. • Investors may place unwarranted reliance on unaudited comparative information. • Some TSXV issuers are large and well-established and should not be exempted. Exemptive relief can be sought in appropriate circumstances.	We acknowledge the comments. We have decided not to expand the junior issuer exemption.
9. Should a control person be considered independent for the purpose of the audit committee? (Question 10)			
9.1. Section 5 of Rule published for comment	*Control person not independent for purpose of audit committee*	Thirty-eight commenters supported adding control persons to the list of those who are not independent for the purpose of the audit committee. Their reasons include the following: • Major shareholders are often able to assert significant influence on and control over management. • By reducing opportunities for conflicts of interest, investor confidence in venture issuers' corporate governance and financial reporting will be enhanced (similar rationale to outside auditors being independent). • Director's independent judgment may be	We acknowledge the comments. We agree that control persons should not be considered independent for the purposes of the audit committee.

		compromised if that director holds a sufficient number of securities of an issuer to materially affect the control of the issuer.	
9.2. Section 5 of Rule published for comment	*Control person independent for purpose of audit committee*	Seven commenters did not support adding control persons to the list of those who are not independent for the purpose of the audit committee. Their reasons include the following: • Control persons should be able to sit on the audit committee so long as at least two audit committee members are independent directors. • If a control person is not independent, then the board may need to increase its size to have sufficient independent directors for audit committee purposes. Issuers should be determining the optimal size of the board. • Unnecessarily decreases a venture issuer's pool of independent directors. The interests of control persons are not necessarily aligned with management. Control persons, like all investors, have an interest in accurate financial statements. • Would likely impair the quality of their governance because less qualified individuals would likely replace those with greater competency and knowledge of the business. • Control persons are well-placed to fill the role of audit committee members.	We thank the commenters. However, we are of the view that control persons should not be considered independent for the purpose of the audit committee. Because of the size and other attributes of venture issuers, control persons often have significant influence and control of management. We note that control persons will still be able to participate on the audit committee provided that two other members of the audit committee are independent.
10. Should venture issuers have to duplicate executive compensation disclosure in the information circular? (Question 11)			
10.1. Part 5 of Form 51-103F1 published	*Only in annual report*	Nine commenters supported only disclosing executive compensation in the annual report. Their reasons, and conditions to their support, are:	We thank the commenters. We have decided to require executive compensation disclosure only in the information circular for the following reasons: • The disclosure will be easily available for investors as

for comment		• Adding the information to the annual report will limit duplication. • Incorporation of the annual report into the information circular would be sufficient provided the annual report is filed early enough for investors to consider executive compensation and governance disclosure before they are required to vote.	they make their voting decisions and can be found in the same place, regardless of whether the issuer is a venture issuer or a non-venture issuer • There would be no change to the timing for providing this information • It will reduce redundancy in disclosure and risk of error in the duplication process
10.2. Part 5 of Form 51-103F1 published for comment	*Only in information circular*	Thirty-eight commenters did not support moving executive compensation disclosure to the annual report. Their reasons include the following: • Sophisticated investors know and understand that the information is in the information circular. • Preferable to keep the disclosure in the information circular so there are a few more weeks to prepare it. • No reason to distinguish between TSX and TSX Venture. • The inclusion of duplicate disclosure in both the annual report and information circular will increase the risk of errors. • Shareholders must be able to make fully informed decisions on such issues without having to look to a document other than the information circular.	We acknowledge the comments. We have decided to require executive compensation disclosure only in the information circular.
10.3. Part 5 of Form 51-103F1 published for comment	*In both information circular and annual report*	One commenter supported including the executive compensation disclosure in both the information circular and the annual report.	We thank the commenter. The reasons for our view are set out in 10.1 above.
11. Does specific disclosure of grant date fair value and the accounting fair value of options or other compensation provide useful information? (Question 12)			
11.1. Part 5 of	*Specific disclosure of*	Six commenters think that grant date fair value and	We thank the commenters for their input. However, we

Form 51-103F1 published for comment	*grant date fair value provides useful information.*	accounting fair value of options or other compensation provide useful information and indicated support for keeping the requirement. Their reasons include the following: • Grant date fair value provides important information to investors because it shows what the board intended to pay an executive at the time the award was made. • Reflects the board's intentions with respect to compensation and provides investors with greater understanding of link between pay and performance. • The requirement to calculate and disclose the value of options and other remunerations at the date of the award assists in understanding the parameters taken into account, including volatility, when deciding on executive compensation.	are of the view that in the venture issuer context options are granted with a view to future growth of the company rather than a specific value attributed at the grant date. It is our understanding that the recipient accepts this form of compensation because they believe that the value of the company will increase with time and effort, not based on the grant date value of the options. Investors are also interested in the pay actually received by NEOs since it provides information as to the overall alignment between executive compensation and the shareholders' experience.
11.2. Part 5 of Form 51-103F1 published for comment	*Specific disclosure of grant date fair value does not provide useful information.*	Forty-one commenters think that grant date fair value and accounting fair value of options or other compensation does not provide useful information. Their reasons include the following: • Volatility of the market makes the information misleading. • When an option holder does not exercise his or her options in a year, the compensation is reported again in the next year. This is a misleading duplication because the compensation was not "paid" in the prior year. • More valuable to disclose realized values. • Information is not reflective of actual compensation and certain shareholders believe the total amount is	We acknowledge the comments. We have decided not to include a requirement for disclosure of grant date fair value and accounting fair value of options.

		the actual compensation received by the NEO. • Individual director and executive compensation disclosure should focus on amounts realized on the exercise of options and that available to be realized on unexercised options. • Disclosure of grant date fair value of stock options is not essential. Knowledge of the number, exercise terms and conditions is.	
12. Should CPCs be exempted from additional requirements? (Question 13)			
12.1. Rule published for comment	*CPCs should be eligible for exemption from additional requirements.*	Six commenters support exempting CPC's from additional requirements. Their reasons include the following: • Only useful information for a CPC is cash on hand. • Until CPCs generate business, they should be exempt from preparing MD&A. • CPC should be exempted from filing any annual and mid-year reports during the 24 months of listing on the TSXV provided it has not completed its qualifying transaction because a) CPC's IPO prospectus contains all relevant information about the CPC, b) during first 24 months the information generally remains unchanged, c) CPC would still be required to file interim and annual financial statements. • Eliminate the requirement for CPC companies to provide annual report and mid-year report because much of the disclosure is irrelevant. Replace the reports with financial statements with appropriate notes, supplemented by material change disclosure. • CPCs should be excluded from the application of the proposed instrument. Current regulations create a	We thank the commenters for their input. However, we are of the view that an expansion of the CPC exemption is not necessary at this time. Optional reporting for the first and third quarters in the fiscal year and the mid-year report are being replaced with mandatory full financial statements but with a significantly reduced requirement for additional narrative disclosure. Please refer to Part 8 of Form 51-103F1 for the requirements as well as guidance about what is expected from CPCs. We believe that these proposals allow CPCs to provide tailored disclosure suitable to their form of business.

		tailored regime for CPCs and appropriate disclosure requirements will be imposed depending on the nature of the qualifying transaction. • If no change to CPC, then CPCs should be exempted from annual and interim reporting requirements except those related to the financial statements, executive officer compensation and steps taken for the purpose of their acquisition.	
12.2. Rule published for comment	*CPCs should not be eligible for exemptions from additional requirements.*	Thirty-four commenters do not support exempting CPC's from additional requirements. Their reasons include the following: • a CPC is a listed company like any other. • the progress of the CPC towards a qualifying transaction merits periodic updating.	We acknowledge the comments.
13. Other comments (Question 14)			
13.1. Rule published for comment	*Access to capital*	One commenter believes this initiative requires a more complete analysis of the issues surrounding access to capital.	We thank the commenter. However, the type of review referred to by the commenter is outside the scope of the current project.
13.2. Rule published for comment	*Adequate investor protection?*	Three commenters discussed the perceived inadequate investor protection. Their comments include the following: • Do not support reduction of disclosure and governance standards applicable to venture issuers. • Suggests that empirical evidence should be sought to demonstrate that the new rules will be less confusing and costly before introducing a new rule. • Suggest that CSA consult with venture issuer investors to find out what changes investors believe would improve venture issuer disclosure.	We thank the commenters for their input. The proposed regime is tailored to venture issuers and their circumstances. We believe that the regime strikes an appropriate balance between an investor's need for information and the need to sustain a vibrant capital market. We published a consultation paper and participated in consultations with investors, venture issuers and market participants. Certain jurisdictions also conducted a cost-benefit analysis. Emerging markets issues affect all reporting issuers and

		• Recommend that we reflect on recent developments in the market (particularly with emerging market listings on Canadian venture exchanges) which call into question the appropriateness of this initiative. Recent scandals suggest we may need tighter, more effective regulation of venture issuers in order to better protect investors and restore investor confidence. • Recommend the CSA establish a task force consisting of Canadian exchanges, underwriters, auditors, legal advisors as well as regulators to tackle problems with emerging market listings, market manipulation, market integrity (short-selling analysts and highly negative research reports). • Recommends CSA undertake an examination of the effectiveness of listing requirements of the TSX and TSX-V given the conflict between their regulatory responsibilities and commercial activities. • The absence of a cost-benefit analysis makes it premature to conclude on the merits of altering the disclosure and governance rules for venture issuers. • Concern that proposed measures increase the risk of fraud and manipulative abuse by reducing disclosure standards. • Concern that proposed reduced standards will result in less protection for investors and have the potential to adversely affect the reputation of the Canadian marketplace. • A lack of independent analyst coverage limits investors' and prospective investors' ability to obtain an informed outsider's perspective on a company's suitability for investment. A reduction in issuers'	not just venture issuers. A coordinated approach would be more appropriate than specifically considering the issue in the context of this proposal. Moreover, tailoring and streamlining corporate governance and regulatory disclosure does not preclude more effective regulation of venture issuers. With respect to exchange requirements, the CSA jurisdictions regularly review listing and other requirements imposed by these exchanges and we are aware of their responsibility to balance regulatory-type responsibilities with commercial activities. Regarding one commenter's concern about a potential for "increase[d] risk of fraud and manipulative abuse", the goal in this project is to set disclosure standards appropriate for a certain group of issuers and to ensure that the disclosure required provides investors with sufficient information to make an informed investment decision. The proposed rule does not reduce the prohibitions against misrepresentations or fraud in securities legislation, other legislation or the common law. While there is less independent analyst coverage in the venture market, that is due to the small size of the venture market in Canada. This proposed disclosure regime is based on, and tailored to, our understanding of the information that investors need to make investment decisions.

		disclosure exacerbates the problem.	
13.3. Part 4 of Rule published for comment and Form 51-103F1 published for comment	*Annual and semi annual reports*	Forty-one commenters discussed the annual reports generally. Their comments include the following: • Requirement in annual report to provide FLI on business objectives, key performance targets and milestones and related information unfairly exposes venture issuers to secondary market civil liability in a manner not required of senior issuers. • Requirement to provide FLI may be unduly burdensome, may carry inherent risk to the extent performance targets are not met and will oblige venture issuers to regularly update the FLI. • The information required by item 17 of proposed Form 51-103F1 addresses many of the items contemplated by item 18 of the Form. • Market would be better served by a quarterly report similar to the semi-annual report if issuers elect to provide voluntary information. To be meaningful and comparable to other periods the information should be accompanied by MD&A and certified. • If mandatory Q1 and Q3 interim reports are not eliminated then there should be quarterly reports that contain the same information as the semi-annual report (as is the case in the US 10-K and 10-Q). Recommend that amendments to reports be readily identifiable. • Concept of annual report good, but the contents of the annual report should reflect current disclosure requirements not those recommended by the proposal. • Propose including the element of materiality of	We thank the commenters for their input on the annual report generally. We are of the view that the current proposal is appropriately tailored specifically for the venture market, both venture issuers and their investors to a greater extent than is present in the current regime. We expect that there will be an initial transition period during which additional expense may be incurred. However, we expect the benefits of a disclosure system tailored to venture issuers and their investors to outweigh the costs. Venture issuers will adjust to these disclosure requirements and we expect that the new regime will allow them to provide disclosure that is commensurate with their stage of development. Note that we have removed the mid-year report requirement in favour of an interim quarterly report requirement with reduced narrative disclosure. We are of the view that the governance disclosure is important in the venture issuer setting to provide investors with information about the venture issuer's internal policies for compensation and governance. The guidance to section 37 of the instrument provides information about defences available to venture issuers with respect to secondary market civil liability. Section 37 requires venture issuers to have a reasonable basis for making this type of disclosure and also requires certain cautionary statements, both of which, if complied with, will assist the venture issuer with its defence. Venture issuers are currently subject to secondary market liability.

		contracts into definition of "material contract" in 51-103 to conform to 51-102 definition. • The definition of material contract should conform to the definition of material contract in NI 51-102. • Part 1 Section 2 of Form 51-103F1 does not contain the phrase "You do not need to disclose information that is not material" as is the case with the Form 51-102F2. These should be harmonized. • Providing specific references to page numbers in information circular is not practical because the information circular is being amended up to the actual mailing deadline and there may be different page numbers for English and French. If a reference is necessary, a reference citing the section, appendix or schedule within the information circular is preferable. • The preparation of the annual and mid-year report, particularly given the additional required information, will require significant dedication of time and resources for initial preparation and first few years of implementation. • The time and costs savings associated with the proposal will be offset by: a) additional time and increased professional fees in preparing and becoming familiar with regime (including more involvement), b) additional costs associated with preparing annual and mid-year reports, c) requirement to prepare the annual report and information circular, d) the annual report will result in concise but less complete disclosure about venture issuers with complex business. • Differences in disclosure requirements for different	Generally, section 17 requires discussion of the venture issuer's history and section 18 requires discussion of the venture issuer's plans for the future; however, there may be some overlap. As always, the venture issuer is not expected to unnecessarily repeat disclosure that has already been provided. The proposal has been revised to require mandatory interim reports for the first three quarters of the fiscal year. We have revised our definition of material contract to be substantially the same as that in NI 51-102. We have added "You do not need to disclose information that is not material" in Section 2 of Form 51-103F1. We acknowledge that providing specific page numbers from the information circular is not practical. We have amended the requirement to be a "reference to the location" of the disclosure in the information circular, which will allow flexibility as to how the location of disclosure within the information circular is provided. We have avoided incorporation by reference to the extent possible in order to create an annual disclosure document that contains most of the information that investors need. The goal is to reduce the number of documents that investors have to consult in order to make an informed investment decision.

		issuers may result in lack of familiarity from agent's counsel, increasing expenses, not reducing them. • Support condensing venture issuer disclosure into the annual and mid-year report because management is more easily able to understand the regulatory framework; however, many of the commenter's clients are not in favour of a comprehensive annual and mid-year report. • Recommend a simple, plain language and concise MD&A (see Australian Form 5B). • Many small entities will have logistical issues with preparing and distributing a longer annual report. Accordingly, entities should have the option of continuing to be able to incorporate certain documents by reference (for example, board and governance matters). • Do not think the disclosure in sections 34 and 41 of Form 51-103F1 should be included because the "honest" disclosure could make the processes and measures in place seem like shortcomings. This could encourage small issuers to paint an embellished picture of the situation. Removal of this requirement would not impact the quality of the information required.	
13.4. Part 5 of Rule published for comment	*Communication with shareholders*	Five commenters discussed communication with shareholders. Their comments include the following: • Notice and access for proxy materials implementation in NI 51-103 is redundant as proposed since amendments to NI 54-101 already include a notice and access regime for all issuers. • The effectiveness of advance notice to shareholders	We thank the commenters for their input on communication with shareholders. We want issuers to deliver the annual report because it contains the annual financial statements that investors should receive. We plan to conform our delivery requirements to those in NI 54-101, which allows for "notice and access", which should minimize additional costs for venture issuers.

		of the intent to utilize notice and access is questionable. If advance notice is required, suggest including it in the notice of meeting (30 days in advance of record date). • Support delivery of disclosure documents only on request for all issuers. • Do not support requirement to "deliver" annual report to shareholders. Will mean increased printing and mailing costs as compared to non-venture issuers who are not required to send AIF.	The delivery of disclosure documents only on request is beyond the scope of this project.
13.5. Rule published for comment	*Comparability of venture issuers to other issuers*	Seven commenters discussed comparability of venture issuers to other issuers. Their comments include the following: • Inclusion of management information in annual report as set out in the proposal should be applicable to all issuers and not only venture issuers. • Proposed instrument should apply to all segments of venture issuers to promote consistency and market comparison. • All companies should be providing the same executive compensation disclosure. Do not agree with allowing venture issuers to provide only two years. Do not agree with combining NEO and director compensation into one table. Combining NEO and director compensation could make disclosure less clear without reducing burden on venture issuers in a meaningful way. • Distinction between venture issuer disclosure and non-venture issuer disclosure may hamper the ability of analysts to compare venture issuers and non-venture issuers and may result in reduced	We thank the commenter for the input. The current regime is tailored to venture issuers and their circumstances and was developed by balancing an investor's need for information and the need to sustain a vibrant capital market.

		analyst coverage. • Support idea of consolidating all required disclosure into one report for all issuers, but does not agree it should be limited to venture issuers. • Support reduction of complexity and simplification of presentation, however, an initiative should be undertaken by CSA to ensure an "even playing field" for all reporting issuers regarding their regulatory obligations. All reporting issuers and their investors would benefit from streamlined regulatory instruments and simplified disclosure requirements.	
13.6. Rule published for comment	*Confusion in the marketplace and impact of proposals*	Four commenters discussed confusion in the marketplace. Their comments include the following: • The effect of the proposals is to create three disclosure regimes in Canada i) rules applicable to non-venture issuers, ii) rules applicable to venture issuers (as defined in 51-103) and iii) rules applicable to senior unlisted issuers or other companies excluded from the definition of venture issuer. The result is an increase in complexity in the overall regulatory structure. • A single comprehensive guide to securities legislation that describes all applicable rules for venture issuers and the market better than the proposed amendments. • In support of the reduction of duplicate information, a brief summary of governance requirements and other attachments to the information circular could be provided (rather than the full documents) with web-links provided to the full documents on the listed issuer's website.	We thank the commenters for their input. We agree that having TSX Venture-listed issuers being subject to two different regimes would be less than ideal. The disclosure regime for non-venture issuers and senior unlisted issuers remains largely the same. The primary change is for venture issuers, and as discussed throughout, the proposed regime is tailored to venture issuers and their circumstances and was developed by balancing an investor's need for information and the need to sustain a vibrant capital market. The proposed regime is more than the creation of a comprehensive guide to securities law for venture issuers. The proposed regime is tailored to venture issuers and their circumstances and was developed by balancing an investor's need for information and the need to sustain a vibrant capital market.

		• Proposed instrument must remain a national instrument with all CSA members participating to avoid TSX Venture-listed issuers being subject to two different and somewhat inconsistent regimes.	
13.7. Part 3 of Rule published for comment and Part 8 of Form 51-103F1 published for comment	*Corporate governance*	Seven commenters discussed corporate governance. Their comments include the following: • Do not support reducing corporate governance requirements further, in particular the removal of: a) the requirement to disclose and identify the independent and non-independent directors and the basis for that determination, b) the requirement to disclose the steps used to identify new candidates for board nominations, c) the requirement to identify other boards of which directors are a member. • Members of boards of small companies, who may be inexperienced, should be focusing attention on their corporate governance practices in order to ensure that the company is well governed and built on an ethical foundation. Investors need information about a company's governance practices in order to assess the risk of their current investment and any potential investment. • Describing statutory and contractual obligations of directors and officers in a disclosure document does not provide any additional information to investors as the obligations already exist in corporate statutes and the common law. • Question whether the conflicts of interest provisions are necessary as most corporate laws include some kind of conflict of interest protection and market practices generally lead to similar provisions being	We thank the commenters for their input on corporate governance. The current regime is tailored to venture issuers and their circumstances and was developed by balancing an investor's need for information and the need to sustain a vibrant capital market. Participants in the Canadian capital markets are not limited to corporations or entities that are founded in a Canadian jurisdiction. Disclosure of the statutory or contractual obligations that may apply to officers and directors of a venture issuer in a foreign jurisdiction may be particularly relevant. For example, the requirement that a majority of the audit committee cannot be officers or employees of an issuer may be essential for a foreign corporation or other form of entity. Emerging market issues affect all reporting issuers and not just venture issuers. A coordinated approach would be more appropriate than specifically considering the issue in the context of this proposal. Item 35 of proposed Form 51-103F1 requires disclosure of whether members of the audit committee are financially literate. An investor can review this disclosure before making a voting or investment decision. We are of the view that requiring this disclosure strikes an appropriate balance between the costs to an issuer and the corresponding benefits to an investor.

		applied to non-corporate issuers. • Do not oppose requirement to create and disclose policies and procedures to address conflicts of interest and insider trading but these obligations already exist in law and TSX-V listing requirements. • Requirement that a majority of the audit committee cannot be officers or employees of an issuer or its affiliates does not provide additional investor protection as these requirements already exist in the CBCA and OBCA, as well as the TSX-V listing requirements. • Propose requirement that all listed issuers be incorporated in a jurisdiction with corporate legislation that meets minimum corporate governance standards. The TSX-V currently imposes corporate governance obligations on directors and officers but those are contractual relationships between the TSX-V and the issuer and would be difficult for a shareholder to enforce if the issuer were incorporated in the British Virgin Islands or China, for example. • Do not support inclusion of requirement for board of directors to develop policies and processes to address conflicts of interest and to avoid insider trading. These obligations already exist in law and to include them (as presently worded) would create confusion. • If there is an audit committee requirement in law or listing requirements, no need for requirement in NI 51-103. • Propose that at least one member of the venture issuer's audit committee be financially literate	We did not consider it appropriate to adopt the proposal that consultants not be considered independent for the purposes of the audit committee. We have amended the language to require disclosure in the annual report where no steps have been taken in respect of certain corporate governance and ethical matters. We did not consider it appropriate to adopt the material relationship test for the purpose of determining who is independent for the purpose of the audit committee. A venture issuer's approach to keeping its obligations under paragraph 6(d) of the Proposed Instrument will be measured by the extent to which policies and procedures are reasonably designed to prevent securities violations by those with undisclosed material information. An issuer's policies and procedures could reasonably be different for a person or company in a special relationship with the issuer (but over who the issuer only has indirect influence) versus for the issuer's employees, officers, and directors (over who the issuer has greater influence). For example, it may be reasonable to design a policy for significant shareholders which requires any officer, director, employee or contractor of the issuer, that provides material information that has not been generally disclosed to a significant shareholder, to inform the significant shareholder in writing that the issuer considers the information to be material and any trading of the issuer's securities by the significant shareholder when in

		(section 1.6 of NI 52-110). • Propose that consultants to an issuer should not be considered independent for the purposes of the audit committee. • Propose that Items 41(2) to (7) of Form 51-103F1 be redrafted to require that if the issuer does not take any steps or measures in respect of certain corporate governance and ethical matters that it disclose that fact in its annual report. This comment may apply to other sections of Form 51-103F1. • Requiring a venture issuer to become aware of and deter or prevent each company or person in a special relationship from insider trading or tipping is too broad and should be removed or narrowed to the issuer's directors, officers, employees and perhaps consultants. • Do not think it is appropriate to require an issuer to "police" its insiders. Insider trading offences applies to insiders and not to the issuer. Market dictates most issuers already have insider policies. • Support introduction of corporate governance requirements related to conflict of interest, related party transaction and insider trading for all issuers. • Do not support the removal of the requirement for audit committees to pre-approve non-audit services provided by the external auditor. • Do not support removal of requirement to disclose the education and experience of audit committee members. • Do not support the removal of the requirement from the proposal to introduce into securities law the	possession of this information, prior to general disclosure, or sharing of the undisclosed material information with others, may be a contravention of securities legislation.

		obligations on directors and officers to act honestly and in good faith, and to exercise care, skill and diligence. • Better to adopt "material relationship" test from section 1.4 of NI 52-110 to determine who is independent for the purposes of the audit committee.	
13.8. Rule published for comment	*Disclosure gap*	Five commenters discussed the disclosure gap in the event interim financial reports are not filed. Their comments include the following: • Where an issuer only files financial statements twice a year, it may need to provide more information in its press releases. • Partial disclosure of financial information in an interim period should trigger a requirement for a venture issuer to file quarterly financial reports (for example an announcement of revenue for the quarter). • There should be a requirement for issuers to assess, by 60 days after the end of each quarter, the issuer's ability to continue as a going concern. Where management is aware of material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, then the entity should disclose those material uncertainties, if they have not been disclosed, by filing a material change notice. Requirements should also exist at the time of filing a prospectus. • Are in favour of an amendment to 17(5)(a)(iii) to alert investors when future operations may need to be curtailed significantly to allow an entity to	We thank the commenters for their input on the disclosure gap. Please see the discussion in section 1.1 of this summary. As with all new initiatives and amendments, we expect some initial training will be required. We note that the proposed rule does not prevent a venture issuer from providing financial information related to the target in the press release.

		continue to operate. • Because removal of interim financial reports and BAR will place more reliance on material change reporting, issuers should be reminded of their responsibility to provide complete and timely information. • If the objective in the acquisition is for rapid information to the market, disclosure of the financial information related to the target in the press release is more useful than full financial statements.	
13.9. Rule published for comment	*Drafting comments*	One commenter suggested that the wording of the proposal as currently drafted is overly complex, difficult to read and insufficiently punctuated. The commenter recommended that we shorten sentences and make brief direct points.	We acknowledge the comment. Where possible, we follow the principles of plain language when drafting new rules.
13.10. Part 5 of Form 51-103F1 published for comment	*Executive compensation*	Two commenters discussed executive compensation. Their comments include the following: • Suggest executive compensation disclosure provisions (section 31 of 51-103F1) be redrafted to exempt issuers that have complied with IAS 24. NEOs may not meet the definition of "key management personnel" under IFRS if they do not have authority for planning, directing and controlling the activities of the entity. • Disclosure of criteria and goals for executive compensation is not meaningful in a small public company and will result in boilerplate disclosure. Instead, ask for explanation of how compensation was determined.	We thank commenters for their input on executive compensation. We have decided to remove what was the exemption in section 31 of 51-103F1. Item 18 of proposed Form 51-103F4 will require venture issuers to explain how compensation is determined.
13.11. Rule published	*Preparation of pro-forma statements*	Three commenters discussed financial statement preparation. Their comments include the following:	We thank the commenters for this input, but are of the view that the information provided in pro forma

for comment		• Recommend that CSA provide guidance in CP regarding the voluntary preparation of pro forma statements. If the information is considered useful, there will be a standard basis for preparation and that will allow auditors to perform procedures in CICA HB 7110.36. • Rather than eliminate the pro-forma requirement, issuers should be able to seek exemptive relief from the pro-forma requirement if the information is not material or is unduly costly to produce. • Only the pro forma balance sheet provides useful information where combining parties have insignificant results of operations (see 49.2 of TSX Venture Exchange Form 3D1-3D2).	financial statements is largely available elsewhere in the disclosure. As this disclosure is somewhat duplicative, we do not think it necessary to require pro forma financial statements. However, we note that in the context of a primary business in Form 41-104F4, pro forma financial statements are required (see sections 31.7 and 31.8 of Form 41-101F4).
13.12. Form 51-103F4 published for comment	*Information circular*	One commenter discussed information circulars. Their comments include the following: • Propose consistency between NI 51-103 and the information circular requirements under TSX-V Forms 3B1-3B2 and 3D1-3D2.	We thank the commenter for their input. We understand that the TSX Venture Exchange is aware of our proposal and any consequent differences between NI 51-103 and their requirements.
13.13. Part 6 of Rule published for comment	*Material related-entity transaction*	Two commenters discussed material related-entity transactions. Their comments include the following: • Requirement for press release where there is a decision by the management, but not yet the board, to implement a material related entity transaction requires management to predict whether board will approve. If retained, there should be a requirement for material change disclosure in case of a decision by the board not to approve. • Question appropriateness and necessity of conflict of interest and material related entity transaction requirements. Requirements could be inconsistent	We thank the commenters for their input on material related-entity transactions. We are of the view that a subsequent decision of the board not to approve a material related entity transaction would be a material change requiring material change disclosure and therefore an additional requirement is not necessary. We are of the view that section 4 is an acceptable measure to ensure venture issuers are aware of and can appropriately address conflicts of interest and related entity transactions. Some venture issuers are neither subject to Canadian corporate statutes nor MI 61-101.

		with constating documents and are an add-on to protections already in place (MI 61-101). If section 4 of 51-103 retained, a materiality standard should be introduced.	
13.14. Paragraph 4.2(1)(b.1) of proposed consequential amendments to NI 43-101 published for comment	*NI 43-101*	Three commenters discussed the introduction of a technical report trigger on the filing of a short form prospectus. Their comments include the following: • Proposed change to NI 43-101 to add short form prospectus trigger for updated technical report will impose delays in financing, which impacts availability of financing. • This change would also require that venture issuers comply with this provision but an issuer on the TSX would not. • Proposed change to NI 43-101 to add short form prospectus trigger for updated technical report is not a consequential amendment.	We thank the commenters for their input. Under the proposed rules, all venture issuers will be eligible to file a short form prospectus as they will have filed an annual report. Unlike for an issuer subject to NI 51-102 where the annual information form is a trigger for an updated technical report, the venture issuer annual report will not be a trigger for a technical report. We did not want the annual report requirement to be overly burdensome to venture issuers by requiring more technical disclosure than we currently require under NI 43-101. In response to these comments, we have changed the proposed consequential amendment. Specifically, the proposed short form prospectus trigger in paragraph 4.2(1)(b.1) will only apply if the venture issuer has not in the 12 months preceding the date of the preliminary short form prospectus filed a technical report or qualified for and relied on the exemption in subsection 4.2(8) from filing a technical report. Also, the short form trigger in paragraph 4.2(1)(b) will continue to apply to venture issuers.
13.15. Section 13 of Rule published for comment	*Optional interim financial reports*	Five commenters discussed the optional interim financial report. Their comments include the following: • The requirement to file quarterly financial reports for two years once a quarterly report has been filed is too long because junior issuers could go through one or two significant acquisitions or changes of directors and management in that period which	We acknowledge the comments. Please see the discussion in section 1.1 of this summary.

		could change their rationale for investing. • Support two year time frame requirement for issuers that voluntarily provide interim reports because it avoids voluntary disclosure of positive results and no disclosure of negative. • If mid-year financial reporting adopted, recommend allowing for the filing of an interim financial report solely for the purpose of the offering. • Two year requirement for voluntary interim reporting may require additional ways of ceasing to provide the reports. For example a major disposition in the two year window could result in interim reports no longer being useful. • Voluntary compliance with interim reporting should require MD&A and interim CEO and CFO certifications. • May be necessary to ensure interim financial reporting is not replaced by publication of selected information that may be perceived as a substitute for interim reports, such as statements of production volumes or sales figures. The CSA could set out examples of misleading or inappropriate disclosure or suggest entities not provide performance disclosure other than material change disclosure. • Could require shareholder approval of interim reporting frequency at annual meetings to ensure investors have a say in frequency of financial reporting.	
13.16. Rule published	*Opt-out*	Four commenters discussed the ability to opt-out of the entire, or portions of the, venture regime. Their	We acknowledge these comments, but are of the view that the proposed rule is appropriate for venture issuers.

for comment		comments include the following: • Propose an opt-in to the non-venture regime to allow venture issuers to be comparable to their TSX peers without having to graduate to TSX. CSA could require supplemental disclosure for venture issuers that opt-in. If no opt-in, the detrimental effect of the new regime may outweigh any potential benefits. • Corporate information filed in the information circular of a non-venture issuer will be significantly different. NI 52-110 and NI 58-101 will be replaced by specific requirements for disclosure of conflicts of interest, related party transactions and insider reporting. Accordingly, it appears that boards of venture issuers and management and advisors will not be required to maintain a broad corporate governance perspective or to provide disclosure of such practices.	For those issuers whose circumstances are such that their peer group are non-venture issuers or are otherwise comparable to non-venture issuers, the CSA will consider, on a case-by-case basis, applications for exemptive relief to allow those venture issuers to comply with the disclosure requirements applicable to non-venture issuers. Further, venture issuers may always supplement the disclosure required under the proposed rule with disclosure required for non-venture issuers.
13.17. Rule published for comment	*Penalties*	One commenter proposed harsher penalties for illegal activities as opposed to increased compliance regulations. An unfair proportion of junior issuer capital is expended satisfying regulatory requirements rather than business objectives.	We thank the commenter for the input, but this is beyond the scope of this project.
13.18. Rule published for comment	*Rights offering*	One commenter proposed a simplification of the rights offering regime as it is the fairest method of financing for venture issuers. Suggest using the annual report as the base document.	We thank the commenter for the input, but this is beyond the scope of this project.
13.19. Subsection 1(1) "major acquisition" and Part 6 of	*Significant acquisitions*	Eight commenters discussed significant acquisitions. Their comments include the following: • Suggest the carve-out for an acquisition that does not include a business could be clearer (i.e., clarify that audited financial statements are not required	We thank the commenters for their input on significant acquisitions. We are of the view that clarifying further the concept of what constitutes a "business" would have to be a part of

Rule published for comment		where the property or assets purchased are not a business. • BAR requirements should be removed completely as historic information is seldom relevant to the success and future fortunes of the new issuer. New funding and asset prospects are much more relevant to the investor. • Complete elimination of the BAR would not be an acceptable change because financial statements may not provide all the related information for significant acquisitions. • More attention should be given to definition of "business". Very few issuers acquire businesses – they may be acquiring companies to get at the underlying properties, but that is an asset acquisition disguised as a business. • Support increasing the significant acquisition threshold and streamlining the test to a single standard. • Support significance test which permits significance to be calculated on the acquisition date instead of the announcement date for all issuers. • Support elimination of the BAR and introduction of enhanced material change disclosure, however the inclusion of audited financial statements for two prior fiscal years tends to be a very costly and time consuming exercise especially in respect of non-resource transactions. Matters occurring two years prior to the filing generally have little relevance to the transaction. • Suggest a lower threshold for "major acquisition" be	a broader policy project that also involved a review of its use in National Instrument 51-102 Continuous Disclosure Obligations, and likely other instruments. This review is outside the scope of the current project. We are of the view that removal of the BAR requirement combined with other reporting requirements in the instrument, in particular the requirements for material change reporting, captures the relevant information. Considering the overall scope of the project, we are not prepared to remove the requirement for audited financial statements where there has been a major acquisition at this time. We are of the view that consistent information should be provided to investors in both the primary and secondary markets, where possible. Further, in the offering context an issuer must meet the standard of "full, true and plain" disclosure. An issuer will have to evaluate its proposed disclosure in that case and make a determination as to whether additional or different disclosure would be necessary to meet the applicable standard. The requirements in securities law are not identical to accounting standards. We acknowledge that this may lead to disclosures being made for accounting purposes with are different or in addition to those required for securities regulatory purposes. Issuers and their auditors will need to ensure that they are comfortable with the level of disclosure required to comply with accounting and auditing standards as well as securities regulation.

		adopted for inclusion in an information circular or prospectus. For an auditor to issue a consent for a prospectus, the auditor must be satisfied that subsequent event disclosures have been made in the prospectus (CICA 7110). For a recent major acquisition disclosure of information as contemplated by IAS 10.22(a) might be required, which likely has a threshold lower than 100%, meaning disclosure may still be required under auditing standards.	
13.20. Rule published for comment	*Transition issues*	One commenter discussed transition issues. Their comments include the following: • No guidance is provided in the rule for the following situations: a) issuer moves from venture to non-venture – would it be required to provide comparative Q1 and Q3 reports in the year of transition? b) issuer moves from non-venture to venture – would it be required to provide Q1 and Q3 for 2 years? c) implications for pro-forma financial statements when a non-venture issuer takes over a venture issuer (latest quarter)?	We acknowledge the comments. Please see the discussion in section 1.1 of this summary.
13.21. Section 3 of Rule published for comment	*Venture issuer definition*	Five commenters discussed the definition of venture issuer. Their comments include the following: • Do not agree with rationale for excluding issuers who would be venture issuers but for the fact that they are captured by BCI 52-509. In Ontario, these issuers would be venture issuers. Recommend these issuers should be treated as venture issuers in all jurisdictions. • Definition of venture issuer may capture unlisted issuers that were not intended to be captured (for example, issuers that became a reporting issuer in	We thank the commenters for their input on the definition of venture issuer. We are of the view that, broadly speaking, venture issuers are appropriately classified in reference to the exchanges on which those issuers are listed. For those issuers whose circumstances are such that their peer group are non-venture issuers or are otherwise comparable to non-venture issuers, the CSA will consider, on a case-by-case basis, applications for exemptive relief to allow those venture issuers to comply with the disclosure requirements applicable to

		plan of arrangement, amalgamation or other reorganization or non-offering prospectus). Resolve by (a) amending the definition of "senior listed issuer", (b) defining venture issuers as belonging to a junior exchange, and (c) creating an opt-out provision for 51-103. • Suggest revising the definition of venture issuer to not refer to listing on a particular exchange and focus more on what actually constitutes a venture issuer (e.g., early stage, limited issuer, higher investment risk, less internal controls than senior issuer). Alternatively, use a bright line test similar to listing standards. Determination whether a company continues to be venture issuer could be done with an annual review. • Large market capital companies will be caught as venture issuers owing to listing despite significant investor interests. As of October 26, 2011, there are 8 venture issuers with market capitalization over $500M and 25 venture issuers with market capitalization between $250M and $500M. Propose amendments should apply based on nature of operations and size of issuer rather than listing. • If regulators consider it undesirable for large issuers to remain listed exclusively on the TSXV to avoid reporting requirements, they may consider distinguishing among venture issuers according to size or other criteria.	non-venture issuers. However, a venture issuer may voluntarily file in addition to the documents required under NI 51-103, certain documents in the form required under NI 51-102 (for example MD&A). Furthermore, exemptive relief is not required in respect of such filings. We created MI 51-105 as a tailored regime for issuers listed on the US Over-the-Counter markets. Because of the unique nature of issuers subject to MI 51-105, we do not think it is appropriate for them to be subject to the same regime as venture issuers. At this time, the OSC has not found sufficient abusive activities being conducted in Ontario by OTC issuers to propose legislative amendments to the *Securities Act* (Ontario) that would allow the implementation of MI 51-105 in Ontario.
13.22. Rule published for comment	*Voting*	Two commenters discussed the disclosure of voting results. Their comments include the following: • Support the inclusion of a requirement for venture issuers to disclose detailed voting outcomes of	We thank the commenter for the input, but venture issuers are not currently required to provide disclosure of detailed voting outcomes and we did not consider it appropriate to introduce this requirement.

		meetings of shareholders as is currently the case for non-venture issuers under section 11.3 of NI 51-102. For minimal expense to an issuer, this would provide valuable information especially in the context of contested proxy situations.	