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COR#05/084

Recognition Order

TSX Venture Exchange Inc.

Section 24 of the *Securities Act*, RSBC 1996, c. 418

On November 26, 1999, the Commission recognized the Canadian Venture Exchange Inc. (CDNX) as an exchange in British Columbia under section 24(2) of the Act (COR#99/323).

On July 31, 2001, the Commission ordered the continued recognition of CDNX as an exchange in British Columbia under section 24(2) of the Act under certain terms and conditions effective on the closing of a transaction whereby CDNX became a wholly owned subsidiary of The Toronto Stock Exchange Inc. (TSE) and became a for-profit corporation.

On September 3, 2002, the Commission ordered the continued recognition of TSX Venture Exchange Inc. (TSX Venture Exchange) as an exchange in British Columbia under section 24 of the Act under certain terms and conditions to reflect:

- (i) the name changes of The Toronto Stock Exchange Inc. to TSX Inc. (TSX) and CDNX to TSX Venture Exchange Inc./Bourse de croissance TSX Inc.; and
- (ii) a reorganization under which: (a) TSX became a wholly-owned subsidiary of TSX Group Inc. (TSX Group), (b) TSX Venture Exchange continued to be a wholly owned subsidiary of TSX, and (c) TSX Group agreed to provide corporate services, such as financial services, accounting, payroll, human resources, administration, legal and corporate information technology services, to TSX and TSX Venture Exchange

(COR#02/096), and revoked COR#01/086.

TSX Venture Exchange has applied to the Commission to amend its recognition order to reflect changes to the definition of an independent director.

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The Commission received representations, acknowledgments and undertakings from TSX Venture Exchange, TSX and TSX Group in connection with TSX Venture Exchange's application for COR#02/096 for continued recognition as an exchange.

TSX Venture Exchange, TSX and TSX Group have agreed to the terms and conditions set out in this order.

TSX Venture Exchange will be subject to the joint regulatory oversight of the Commission and the Alberta Securities Commission (ASC).

Based on the application of TSX Venture Exchange, including the representations, undertakings and acknowledgements made by TSX and TSX Group to the Commission in connection with the application for COR#02/096, the Commission is satisfied that the continued recognition of TSX Venture Exchange following the changes to the definition of an independent director will not be prejudicial to the public interest.

The Commission orders the continued recognition of TSX Venture Exchange as an exchange in British Columbia under section 24 of the Act provided TSX Venture Exchange meets and continues to meet the revised terms and conditions set out in Schedule A. Recognition will continue until the Commission, after giving TSX Venture Exchange an opportunity to be heard, revokes it.

This order revokes and replaces COR#02/096.

August 12, 2005

Douglas M. Hyndman
Chair

Ref: COR#02/096

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Schedule A

National junior exchange

1. TSX Venture Exchange will operate a national exchange for junior issuers under a separate brand identity and separately from the national exchange for senior issuers operated by TSX and TSX Group.

Local presence

2. TSX Venture Exchange will maintain an office in Vancouver through which it will
 - (a) provide corporate finance services to, and perform corporate finance functions for, its listed issuers and applicants for listing; and
 - (b) perform issuer regulation functions.
3. TSX Venture Exchange will obtain, solicit and provide regional input on the development of listing and other corporate finance requirements for its listed issuers and applicants for listing.

Public interest

4. TSX Venture Exchange will operate in the public interest.
5. TSX Venture Exchange will maintain rules, policies, and other similar instruments (rules) that
 - (a) are not contrary to the public interest;
 - (b) regulate all aspects of its business and affairs; and
 - (c) are appropriate to foster a vibrant and effective market for junior issuers.
6. More specifically, TSX Venture Exchange will ensure that
 - (a) the rules are designed to
 - (i) ensure compliance with applicable securities legislation;
 - (ii) prevent fraudulent and manipulative acts and practices;

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- (iii) promote just and equitable principles of trade;
 - (iv) foster co-operation and co-ordination with entities engaged in regulating, clearing, settling, processing information about, and facilitating transactions in, securities; and
 - (v) provide for appropriate sanction or discipline for violation of its rules for all persons under the jurisdiction of TSX Venture Exchange and for its listed issuers;
- (b) the rules do not
- (i) permit unreasonable discrimination between those seeking and granted access to the listing, trading and other services of TSX Venture Exchange; or
 - (ii) impose any burden on competition that is not reasonably necessary or appropriate; and
- (c) the rules are designed to ensure that the business of TSX Venture Exchange is conducted in a manner that affords protection to investors.

Regulation functions

7. TSX Venture Exchange will continue to perform its corporate finance and issuer regulation functions, including
- (a) setting listing and other corporate finance requirements for its listed issuers and applicants for listing;
 - (b) monitoring the conduct and activities of its listed issuers for compliance with its rules; and
 - (c) making decisions under its rules about its listed issuers, persons associated with its listed issuers and applicants for listing and providing for a review or appeal process for these decisions.
8. TSX Venture Exchange is and remains responsible for performing market regulation functions, including setting requirements governing the conduct of its members and participating organizations, monitoring their conduct and enforcing the requirements of TSX Venture Exchange governing their conduct.

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9. TSX Venture Exchange has retained and, except with prior Commission approval, will continue to retain Market Regulation Services Inc. (RS) as a regulation services provider to provide, as its agent, certain regulation services that have been approved by the Commission. TSX Venture Exchange will provide to the Commission, on an annual basis, a list outlining the regulation services provided by RS and by TSX Venture Exchange. Any amendment to this list will be subject to prior Commission approval.
10. TSX Venture Exchange will continue to perform all other regulation functions not performed by RS, including its corporate finance and issuer regulation functions. TSX Venture Exchange will not perform these functions through any other party, including any of its affiliates or associates, without prior Commission approval. For greater certainty, any outsourcing of a business function that is done in accordance with paragraph 35 does not contravene this paragraph.
11. Management of TSX Venture Exchange will at least annually assess the performance by RS of its regulation services and submit a report to the board of TSX Venture Exchange with any recommendations for improvements. TSX Venture Exchange will give the Commission a copy of each report and advise the Commission of any actions it proposes to take as a result.
12. TSX Venture Exchange
 - (a) will provide the Commission with an annual report in the form and with the information specified by the Commission from time to time; and
 - (b) will not, without prior Commission approval, make any significant changes to the manner in which it provides and performs corporate finance services and functions and performs issuer regulation functions.
13. TSX Venture Exchange, through RS or otherwise, will ensure that its members, participating organizations and listed issuers are appropriately sanctioned or disciplined for violations of its rules. In addition, TSX Venture Exchange will provide notice to the Commission of any violation of securities legislation of which it becomes aware in the ordinary course operation of its business.
14. TSX Venture Exchange will advise the Commission on at least a quarterly basis (or any other basis as the Commission may agree to in writing) of all significant issues arising from issuer non-compliance with TSX Venture Exchange rules, and provide information in a form acceptable to the

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Commission on the issuers or other persons involved, the nature of the issues and the action taken or being taken by it to deal with the situation.

15. TSX Venture Exchange will advise the Commission in writing on at least a quarterly basis (or any other basis as the Commission may agree to in writing) of all significant exemptions or waivers of corporate finance policies and provide information on the issuers involved, the nature of the waivers or exemptions and the reasons for granting the waivers or exemptions.

Regulatory oversight

16. TSX Venture Exchange will comply with the rule review and approval procedures established from time to time by the Commission and the ASC. TSX Venture Exchange will file with the Commission all rules adopted by its board.

Corporate governance

17. To ensure diversity of representation, TSX Venture Exchange will ensure that
 - (a) its board is composed of individuals that provide a proper balance between the interests of the different entities using its services and facilities; and
 - (b) a reasonable number and proportion of its directors are independent directors, as provided in paragraph 20.
18. TSX Venture Exchange's governance structure will provide for
 - (a) fair and meaningful representation, having regard to its nature and structure, on the board and any board or advisory committee;
 - (b) appropriate representation on the board and any board committees of persons that are independent directors; and
 - (c) appropriate qualification, remuneration and conflict of interest provisions and limitation of liability and indemnification protections for its directors, officers and employees generally.
19. At least 25% of the directors of TSX Venture Exchange will, at all times, be persons that have expertise in or are associated with the Canadian public venture capital market.

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20. TSX Venture Exchange will ensure, on an annual basis and each time that an individual joins the board of directors, that at least fifty per cent (50%) of its directors are independent. If at any time TSX Venture Exchange fails to meet this threshold, it will promptly remedy the situation. For purposes of this recognition order, a director is independent if he or she is independent within the meaning of Section 1.4 of Multilateral Instrument 52-110 *Audit Committees*, as amended from time to time, and as enacted or adopted by Alberta, Manitoba, New Brunswick, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Ontario, Québec, Saskatchewan and Yukon, and adopted by informal policy in Prince Edward Island. The board of directors will adopt standards which may be amended from time to time with the prior approval of the Commission, setting out criteria to determine whether individuals are independent, including criteria to determine whether an individual has a material relationship with TSX Venture Exchange and is therefore considered not to be independent. The standards will be made available on TSX Venture Exchange's website.
21. TSX Venture Exchange will not, without prior Commission approval, implement any significant changes to the governance structure and practices of its board, including significant changes to the composition and terms of reference of its board committees and advisory committees.

Fitness

22. TSX Venture Exchange will take reasonable steps to ensure that each officer and director of TSX Venture Exchange is a fit and proper person and the past conduct of each officer or director affords reasonable grounds for belief that the officer or director will perform his or her duties with integrity.

Access

23. TSX Venture Exchange requirements will not unreasonably prohibit or limit access to its trading facilities by properly registered dealers that are members of a self-regulatory organization or exchange recognized in Canada and that satisfy the requirements of TSX Venture Exchange.
24. TSX Venture Exchange will not unreasonably prohibit or limit access to its services.
25. TSX Venture Exchange will maintain written standards separate from TSX for granting access to trading on its facilities.
26. TSX Venture Exchange will keep separate records of

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- (a) each grant of access and, for each entity granted access to its facilities, the reasons for granting access; and
- (b) each denial or limitation of access and the reasons for denying or limiting access to any applicant.

Due process

27. TSX Venture Exchange will ensure that

- (a) its requirements, the limitations or conditions it imposes on access to its trading and listing facilities, and the decisions it makes to deny access are fair and reasonable;
- (b) the parties are given notice and an opportunity to be heard or make representations; and
- (c) it keeps a record, gives reasons and provides for reviews of its decisions.

Fees

28. TSX Venture Exchange will have a fair and appropriate process for setting fees and will determine the fees it imposes on its listed issuers, applicants for listing, members, participating organizations and other market participants.

29. These fees will

- (a) be allocated on an equitable basis as among the parties noted in paragraph 28;
- (b) not have the effect of creating barriers to access;
- (c) be balanced with its need to have sufficient revenues to satisfy its responsibilities; and
- (d) be fair, reasonable and appropriate.

Financial viability

30. TSX Venture Exchange will have sufficient financial and other resources for the performance of its functions in a manner that is consistent with the public interest and the terms and conditions of this order.

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31. TSX Venture Exchange will file with the Commission annual audited financial statements prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP) and accompanied by the report of an independent auditor within 90 days of its financial year end or any shorter period provided in British Columbia securities legislation for reporting issuers to file their financial statements.
32. TSX Venture Exchange will file with the Commission quarterly financial statements prepared in accordance with Canadian GAAP within 60 days of the end of each financial quarter or any shorter period provided in British Columbia securities legislation for reporting issuers to file their financial statements.

System security, capacity and sustainability

33. For each of its systems that supports order entry, order routing, execution, data feeds, trade reporting and trade comparison, capacity and integrity requirements, TSX Venture Exchange will
 - (a) on a reasonably frequent basis and, in any event, at least annually:
 - (i) make reasonable current and future capacity estimates;
 - (ii) conduct capacity stress tests of critical systems on a reasonably frequent basis to determine the ability of those systems to process transactions in an accurate, timely and efficient manner;
 - (iii) develop and implement reasonable procedures to review and keep current the development and testing methodology of those systems;
 - (iv) review the vulnerability of those systems and data centre computer operations to internal and external threats, including physical hazards and natural disasters; and
 - (v) establish reasonable contingency and business continuity plans;
 - (b) on an annual basis, cause to be performed an independent review, in accordance with established audit procedures and standards, of its current systems technology plans and whether there are appropriate processes in place to manage the impact of changes in technology on the exchange and parties interfacing with exchange systems and obtain a written report

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of the review. This will include an assessment of its controls for ensuring that each of its systems that support order entry, order routing, execution, data feeds, trade reporting and trade comparison, capacity and integrity requirements, complies with paragraph (a) above. Senior management will conduct a review of a report containing the recommendations and conclusions of the independent review; and

- (c) promptly notify the Commission of material systems failures and changes.

34. If securities of issuers that are listed on TSX Venture Exchange trade on systems operated by TSX, TSX Venture Exchange will be considered to have met the requirements set out under sub-paragraphs (a) and (b) of paragraph 33 if TSX meets the equivalent requirements contained in the order continuing the recognition of TSX and recognizing TSX Group issued by the OSC in conjunction with the reorganization.

Outsourcing

35. In any material outsourcing of any of its business functions, with parties other than TSX Group or an affiliate or associate of TSX Group, TSX Venture Exchange will proceed in accordance with industry best practices. Without limiting the generality of the foregoing, TSX Venture Exchange will

- (a) establish and maintain policies and procedures that are approved by its board of directors for the evaluation and approval of material outsourcing arrangements;
- (b) in entering into any material outsourcing arrangement
 - (i) assess the risk of the arrangement, the quality of the service to be provided and the degree of control to be maintained by TSX Venture Exchange; and
 - (ii) execute a contract with the service provider addressing all significant elements of the arrangement, including service levels and performance standards;
- (c) ensure that any contract implementing a material outsourcing arrangement that is likely to impact on TSX Venture Exchange's regulation functions gives TSX Venture Exchange, its agents and the Commission access to, and the right to inspect, all data and information maintained by the service provider that TSX Venture Exchange is

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required to share under paragraph 39 or that the Commission requires to assess how TSX Venture Exchange is performing its regulation functions and how TSX Venture Exchange complies with these terms and conditions; and

- (d) monitor the performance of the service provider under any material outsourcing arrangement.

Related party transactions

36. Any material agreement or transaction entered into between TSX Venture Exchange and

- (a) TSX Group or TSX, or
- (b) any affiliate or associate of TSX Group or TSX

will be on terms and conditions that are at least as favourable to TSX Venture Exchange as market terms and conditions.

Change in operations or ownership

37. TSX Venture Exchange will not cease to operate or suspend, discontinue or wind-up all or a significant portion of its operations, or dispose of all or substantially all of its assets, without

- (a) providing the Commission at least six months' prior notice of its intention; and
- (b) complying with any terms and conditions that the Commission may impose in the public interest for the orderly discontinuance of its operations or the orderly disposition of its assets.

38. TSX Venture Exchange will not cease to be wholly owned or directly controlled by TSX or indirectly wholly owned or controlled by TSX Group without TSX Venture Exchange

- (a) providing the Commission at least three months' prior notice of its intention; and
- (b) complying with any terms and conditions that the Commission may impose in the public interest.

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Information sharing

39. TSX Venture Exchange will share information of a regulatory nature and will otherwise co-operate with the Commission and its staff, other exchanges and self-regulatory organizations recognized in Canada, and Canadian regulatory authorities responsible for the supervision or regulation of securities, subject to the applicable privacy or other laws about the sharing of information and the protection of personal information.

Clearing and settlement

40. TSX Venture Exchange will have rules that impose a requirement on its members and participating organizations to have appropriate arrangements in place for clearing and settlement.

Commission approval

41. When seeking the approval of the Commission under these terms and conditions, TSX Venture Exchange will comply with the procedures established from time to time by the Commission for the joint regulatory oversight of TSX Venture Exchange.