

May 16, 2001

Alberta Securities Commission
4th Floor, 300 5th Avenue SW
Calgary, Alberta
T2P 3C4

British Columbia Securities Commission
701 West Georgia Street
9th Flr. Pacific Centre
Vancouver, British Columbia
V7Y 1L2

**Attention: Stephen Sibold, QC,
Chair**

**Attention: Douglas Hyndman,
Chair**

Dear Sir:

Re: Amended Application for Approval of the Acquisition by The Toronto Stock Exchange Inc. (“TSE”) of the Canadian Venture Exchange Inc. (“CDNX”) (the “Transaction”)

The Canadian Venture Exchange Inc. (“CDNX”) hereby applies for approval of the above noted Transaction as well as certain amendments to CDNX’s articles, by-laws, rules and corporate finance policies as described herein and as are necessary to give effect to the Transaction. The Transaction, which is subject to the satisfaction of certain conditions precedent, including regulatory and shareholder approval, will be effected pursuant to the terms of an acquisition agreement between the TSE and CDNX (the “Acquisition Agreement”).

A. The Transaction

Overview

Pursuant to the Acquisition Agreement, the TSE and CDNX have agreed to the Transaction, in which the TSE will acquire all of the outstanding class A voting shares (“CDNX Class A Shares”) and class B non-voting shares (“CDNX Class B Shares”)(collectively the “CDNX Shares”) for an aggregate purchase price of \$50 million. If the Transaction is approved and implemented, CDNX will become a wholly-owned subsidiary of the TSE and will continue to operate as a public venture capital exchange separately from the senior exchange currently operated by the TSE and each CDNX class A shareholder (“CDNX Class A Shareholder”) and CDNX class B shareholder (“CDNX Class B Shareholder”) (other than dissenters) will be entitled to receive \$381,679.38 (the “Transfer Price”) for each CDNX Share held immediately prior to Closing (as defined below). There are currently 131 CDNX Class A Shares and CDNX Class B Shares outstanding.

If the Transaction is approved and implemented, CDNX shareholders will cease to hold CDNX Shares and will not become TSE shareholders. CDNX shareholders will receive cash for their CDNX Shares and, immediately upon Closing (as defined below), will have no rights as shareholders of either CDNX or the TSE other than to receive the Transfer Price for the CDNX Shares. CDNX Class A Shareholders who had access to the facilities of CDNX pursuant to a members agreement (the “Members Agreement”) will continue to have access to the facilities of CDNX pursuant to the Members Agreement which will be amended to delete the requirement of share ownership.

CDNX and TSE Shareholder Meetings

CDNX annual and special meeting of Class A Shareholders (the “CDNX Class A Meeting”) and special meeting of CDNX Class B Shareholders (the “CDNX Class B Meeting”) (together, the “CDNX Meetings”) have been scheduled for May 29, 2001 firstly to deal with matters required to be dealt with at an annual meeting of shareholders as well certain items of special business. The CDNX Meetings have been called also in order that the CDNX Class A Shareholders and the CDNX Class B Shareholders will be asked to approve the Transaction.

An annual and special meeting of TSE shareholders (the “TSE Meeting”) has been scheduled for May 29, 2001. While TSE shareholders will not be asked to directly approve the Transaction, it is necessary in order to complete the Transaction that TSE shareholder approval be obtained for the amendments to the TSE by-laws required in order to implement certain of the “Corporate Governance Matters” discussed below. If the TSE shareholders do not approve all of these matters, the Transaction may not proceed.

In order to allow for public comment to CDNX’s application in connection with the Transaction, CDNX is requesting regulatory approval such that the closing of the Transaction may occur on or before July 31, 2001 (the “Closing”) assuming that the CDNX Meetings and the TSE Meeting are convened and the requisite approvals of the CDNX shareholders and TSE shareholders are obtained on May 29, 2001.

For the reasons outlined below, CDNX does not believe that approval or implementation of the Transaction gives rise to any public interest concerns which would necessitate any delay in securing regulatory approval of the Transaction. As noted below, it is anticipated that the approval and implementation of the Transaction will result in various CDNX departments and operations being integrated with or transitioned to corresponding departments and operations of the TSE. While the timing of any such transition or integration will vary with each department or operation, it is in the best interest of the public and all CDNX stakeholders that regulatory approval be obtained as early as possible so that CDNX may provide as much certainty as possible to its staff and market participants.

The Reorganization

CDNX articles will be amended to reclassify the existing CDNX Shares into “Special Shares”, on the basis of each existing CDNX Share being reclassified as one Special Share (the “Reorganization”). Once the Reorganization has occurred upon Closing by the filing of articles of amendment with the registrar of corporations and the issuance of a certificate of amendment in connection with such filing, CDNX will provide a transfer notice to the depositary, and the transfer of the Special Shares to, and acquisition of the Special Shares by, the TSE, will occur pursuant to the terms and conditions attaching to the Special Shares.

Reasons for the Transaction

If approved and implemented, it is expected that the Transaction will:

- (a) enable CDNX and the TSE to achieve synergies relating to their trading systems and technologies;
- (b) allow both exchanges to take advantage of corporate and operating cost synergies, realized principally by the combined staff, processes and resources of CDNX and the TSE, the reduction of corporate overhead and the realization of infrastructure efficiencies;
- (c) permit CDNX and the TSE, as well as listed companies and brokerage firms, to benefit from anticipated reduction in costs, improved efficiencies and a stronger presence in key regional centres across Canada;
- (d) enable CDNX and the TSE to deliver improved access to capital, increased liquidity, broadened investor following and streamlined listing requirements and enhancement of other policies;
- (e) better enable CDNX and the TSE to provide a harmonized approach to issuers in each stage of their growth and to provide improved liquidity and a streamlined graduation path to the TSE for CDNX-listed companies; and
- (f) create a stronger Canadian capital market that will enable CDNX and the TSE to compete more effectively in the increasingly global marketplace.

B. Continuing Operations of CDNX

If the Transaction is completed, CDNX will continue to operate separately and distinctly from the TSE as the specialized exchange in Canada for junior and emerging issuers. Separate access to

both marketplaces for all users will continue to be offered since CDNX and the TSE will continue to be operated as distinct exchanges and as such, CDNX and the TSE will be recognized and regulated separately, and will retain their separate and unique markets.

CDNX will continue to operate its offices in Calgary, Vancouver, Winnipeg and Toronto (and, upon receipt of regulatory approval, will open an office in Montreal) although it is intended that the current operations will change with the integration or transition of certain departments and operations with or to those of the TSE.

The TSE intends, as soon as commercially reasonable after Closing, to apply for regulatory approvals to operate an office of the TSE in each of Calgary and Vancouver. Immediately following Closing, CDNX's articles of incorporation will be further amended such that CDNX will operate as a "for-profit" corporation.

It is anticipated that members of CDNX ("Members") will continue to access the facilities of CDNX in the same manner as they do at present, with the exception that such access will no longer be contingent on the ownership of at least one CDNX Class A Share. CDNX further anticipates that the Transaction will not necessitate specific changes to CDNX Exchange Requirements, including CDNX rules and corporate finance policies, other than those changes which are described herein and necessitated by reason of the elimination of the requirement for share ownership by Members. As noted below, CDNX is currently in the process of determining whether or not any amendments to CDNX's current trading rules will be necessary or desirable in facilitating the transition of trading from TradeCDNX to the TSE's new trading engine ("NTE"). *See below - Transition of Market Regulation and Trading Systems – Trading Systems.*

Continued Recognition and Regulation

Following the Transaction, CDNX and the TSE will be recognized and regulated separately and it will be necessary for each of CDNX and the TSE to maintain their existing recognition or exemption from recognition orders from the applicable securities commissions.

The obligations and conditions imposed upon the TSE and CDNX by any recognition or exemption process, or in any previous collateral understanding or agreement with or between provincial securities commissions, will remain in full effect following completion of the Transaction. The existing provincial securities commission recognition and exemption orders respecting the TSE and CDNX provide that the exchanges must not make rules that are contrary to the public interest and all rules must be designed to (a) ensure compliance with securities laws, (b) prevent fraudulent and manipulative practices, (c) promote just principles of trade, and (d) foster co-operation and co-ordination among all industry participants. Both the TSE and CDNX will continue to be bound and abide by these provisions after the completion of the Transaction.

As required by provincial securities commissions, both the TSE and CDNX will continue to have separate written standards for access, will continue to not unreasonably prohibit access by a person or company to services offered by either exchange, will continue to equitably allocate fees, and will continue to keep records of persons and companies who have been granted or denied access.

Transition of Operational Functions

Following Closing, it is intended that various CDNX departments and operations, including CDNX's operations relating to technology, trading, market information, market regulation, human resources, accounting, corporate secretarial and other legal services, will be integrated with corresponding departments and operations within the TSE. *See the attached Schedule 2.6.* It is presently anticipated that the timing of the transition or integration of these departments and operations will vary. The timing of the transition of trading to the TSE NTE system and transfer of CDNX market regulation functions are discussed separately below. *See below - Transition of Market Regulation and Trading Systems – Trading Systems.*

CDNX will continue to provide all corporate finance services and functions directly to CDNX-listed companies and will continue to have responsibility for CDNX listing considerations (such as policies, marketing and application criteria) and continuous disclosure, compliance and reporting regimes.

The CDNX brand identity will be preserved and promoted. While internal and external communications will be centralized, it is intended that CDNX will retain a separate spokesperson and such other dedicated resources as are necessary to effectively promote the public venture capital market and the CDNX brand.

C. Corporate Structure and Governance

Corporate Governance Matters

In order to ensure that CDNX will continue to operate as a public venture capital market, distinct from the TSE and to ensure that the TSE and CDNX have the benefit in their governance structures of the participation of persons with an expertise in or association with the public venture capital markets in Canada, CDNX and the TSE agreed pursuant to the Acquisition Agreement that the "Corporate Governance Matters", which are summarized below, would be implemented upon Closing:

Board of Directors: It was agreed that, upon completion of the Transaction, the CDNX board of directors and the TSE board of directors will consist of the same persons. Effective upon Closing, a total of five members of the CDNX board of directors will have joined the TSE board of directors. The members of the TSE board of directors, including certain CDNX nominees (the "CDNX Nominees"), will immediately after the Closing replace the existing members of the CDNX board of directors. The CDNX Nominees that have been designated pursuant to the Acquisition Agreement are Messrs. Scott Paterson, William Hess, Ian Brown, John Hagg and Harry Jaako.

Due to limitations pursuant to the Ontario Business Corporations Act which restrict the TSE board of directors from increasing the size of the TSE board of directors by more than one-third and then appointing the additional directors, it is presently contemplated that Mr. Hagg will be

elected to the TSE board of directors as part of the regular annual meeting process at the TSE Meeting. The TSE shareholders will then be asked at the TSE Meeting to authorize the TSE board of directors to set the size of the TSE board of directors in order to enable the TSE board of directors to appoint the remaining CDN Nominees to the TSE board of directors upon Closing.

Subject to Closing and the appointment of the CDN Nominees noted above, the following individuals have been nominated for election as directors of the TSE at the TSE Meeting and will hold office until the next annual meeting of shareholders or until his or her successor is duly elected or appointed.

<u>Name and Municipality of Residence</u>	<u>Director Since</u>	<u>Principal Occupation</u>
Diana Lynn Bennett ^{1, 2, 6} Toronto, Ontario	May 30, 1995	Business Executive
Brian A. Canfield ^{2, 5, 6} Point Roberts, Washington	June 10, 1999	Chairman, TELUS Corporation
Robert E. Dorrance Toronto, Ontario	May 9, 2000	Vice-Chair, TD Securities Inc.
W. Robert Farquharson ^{2, 6} Toronto, Ontario	June 12, 1996	Vice-Chair and Chief Investment Officer, AGF Management Limited
Wayne C. Fox ^{1, 2, 3, 5} Oakville, Ontario	April 29, 1997	President, CIBC World Markets Inc.
John Hagg ⁶ Calgary, Alberta	-	Chair, Northstar Energy Corp.
Paul W. Hand ³ Toronto, Ontario	May 28, 1998	Managing Director, RBC Dominion Securities Inc.
J. Spencer Lanthier ^{1, 3, 6} Toronto, Ontario	February 8, 2000	Corporate Director
Jean Martel ^{4, 5, 6} Montreal, Quebec	October 26, 1999	Senior Partner, Lavery, de Billy

<u>Name and Municipality of Residence</u>	<u>Director Since</u>	<u>Principal Occupation</u>
John P. Mulvihill ^{4,5,6} Toronto, Ontario	June 12, 1996	President and CEO, Mulvihill Capital Management Inc.
F.G. Lee Simpson ³ Toronto, Ontario	December 14, 1999	President and CEO, Thomson Kernaghan & Co. Limited
Barbara G. Stymiest ^{1, 3, 4, 6} Toronto, Ontario	October 12, 1999	President and CEO, The Toronto Stock Exchange Inc.
Daniel F. Sullivan ^{1, 2, 3, 4, 5}	February 4, 1997	Deputy Chairman Scotia Capital
Gerald C. Throop ⁵ Toronto, Ontario	December 14, 1999	Executive Vice-President and Managing Director, Equity Markets Group, Merrill Lynch Canada Inc.
Eric C. Tripp ⁵ Toronto, Ontario	June 10, 1999	Executive Managing Director, Equity Division, BMO Nesbitt Burns Inc.

¹ Member of Finance & Audit Committee

² Member of Governance Committee

³ Member of Human Resources Committee

⁴ Member of Regulation Committee

⁵ Member of Strategic Policy Committee

⁶ Nominated in accordance with TSE By-law No. 1, which provides that at least 50 per cent of the nominees, including the President, must be qualified individuals who are not associated with any TSE Participating Organization and not otherwise associated with the TSE

Public Venture Capital Members: The governance committee of the TSE board of directors (the “TSE Governance Committee”) selects nominees for election as directors of the TSE and, following Closing, will select the nominees for election to the CDN board of directors from time to time. In order to ensure that once the Transaction has been completed, persons who have expertise in, or an association with, the Canadian public venture capital market are at all times members of both boards of directors, it was agreed pursuant to the Acquisition Agreement that it would be a condition to Closing that the by-laws of the TSE be amended to provide that at least 25% of the directors of the TSE shall at all times, in the opinion of the TSE Governance Committee, be persons with such expertise or association (“Public Venture Capital Members”). It was also agreed that the Public Venture Capital Members collectively would, in the opinion of the TSE Governance Committee, provide a broad geographic representation within Canada.

The CDN Nominees identified above will be the initial Public Venture Capital Members.

Vice-Chairs: Immediately upon Closing, the Chair of CDNX is to be appointed as one of the two Vice-Chairs of the TSE board of directors. The mandate of any of the TSE committees on which a Vice-Chair is a member, including that of the TSE Governance Committee, will be amended to provide that all Vice-Chairs of the TSE board of directors shall be members of such committees.

Officers: Upon Closing, the President and Chief Executive Officer of the TSE shall be appointed as the Chief Executive Officer of CDNX and the individual who was President and Chief Executive Officer of CDNX immediately before Closing shall be appointed as the President of CDNX. The President of CDNX will report directly to the President and Chief Executive Officer of the TSE.

It was also agreed that the TSE by-laws would be amended to provide that the President of CDNX shall be deemed not to be associated with a TSE “Participating Organization” and not to be otherwise associated with the TSE in a manner similar to the treatment of the President of the TSE in such by-laws. As noted below, corresponding amendments to CDNX’s by-law (“CDNX By-law No. 1”) will be required prior to Closing of the Transaction.

Prior to Closing, the approval of the TSE shareholders must be obtained to the amendments to the TSE’s by-laws described above, and to allow the election or appointment of the CDNX Nominees to the TSE board of directors. Without such approvals, the Transaction may not proceed.

CDNX Advisory Board: It was agreed by CDNX and the TSE in the Acquisition Agreement that, on or before Closing, the TSE board of directors would create an advisory board (the “Advisory Board”) to advise the TSE board of directors on policy matters relating to the public venture capital market and the role of CDNX in respect of that market. The Advisory Board will from time to time also advise the TSE Governance Committee as to appropriate nominees for election as the Public Venture Capital Members of the TSE board of directors.

The Advisory Board will be comprised of eight to 15 members having expertise in or association with the Canadian public venture capital market, and it is expected that it will initially be comprised of 12 members recommended by the CDNX board of directors prior to Closing. The Chair of the TSE board of directors, the President and Chief Executive Officer of the TSE and the President of CDNX will be ex-officio members of the Advisory Board. Additionally, the first Chair of the Advisory Board will be an individual selected prior to Closing by the CDNX board of directors. The initial advisory board members are: Ian Brown, Advisory Board Chair, John Brock, Sesto DeLuca, Richard Groome, John McCoach, Norman Thompson, Derrick Armstrong, Charlotte Bell, Peter Brown, Bruce McLeod, Bruce Ramsay and Paul Stein.

Following the TSE’s first annual meeting of shareholders after the Closing Date, the composition of the Advisory Board shall be as determined by the TSE Governance Committee, provided that the Chair of the Advisory Board shall always be a Public Venture Capital Member. *See the attached Schedule “2.4” for the proposed CDNX Advisory Board Terms of Reference.*

CDNX Interim Board and CDNX Board and Advisory Committees

Subject to completion of the Transaction, it is proposed that the CDNX board of directors for the ensuing year will consist of 13 directors, including the President. Four of the current independent directors (Messrs. John Brock, John Hagg, Harry Jaako and Ms. Mary Macdonald) were elected on November 26, 1999 for a term expiring at the close of the second annual meeting of CDNX shareholders and therefore they will not be required to stand for re-election at the CDNX Class A Meeting. One of the current independent directors, Mr. Kenneth Hanna, was appointed to the CDNX board of directors on November 27, 1999 and therefore must stand for re-election at the CDNX Class A Meeting, and, if elected, will serve for a two-year term. Another of the current directors, Mr. Chris Lay, was deemed by the CDNX board of directors on April 24, 2001 to be an independent director in accordance with CDNX By-law No. 1. He will therefore stand for re-election at the CDNX Class A Meeting, and, if elected, will also serve for a two-year term. The following six nominees are also current directors of CDNX and are considered non-independent directors: Messrs. Ian Brown, Dennis Burdett, Sesto DeLuca, Richard Groome, G. Scott Paterson and Norman Thompson. They, together with Mr. William Hess, who is currently a director but is considered to be neither independent nor non-independent, are being nominated for election for a term expiring at the end of the next annual general meeting of shareholders following the CDNX Class A Meeting.

<u>Name and Municipality of Residence</u>	<u>Director Since</u>	<u>Principal Occupation</u>
	One year term	
Ian S. Brown Calgary, Alberta.....	1999	Managing Director and Executive Vice President, Raymond James Ltd.
Dennis N. Burdett West Vancouver, British Columbia ...	1999	Executive Vice-President, Chief Financial Officer, and Corporate Secretary, Canaccord Capital Corporation
Sesto DeLuca Toronto, Ontario	1999	Chief Operating Officer and Chief Financial Officer, W.D. Latimer Co. Limited
Richard R.T. Groome Montreal, Quebec	2000	President, Groome Capital.com Inc.
G. Scott Paterson Toronto, Ontario	1999	Chairman and Chief Executive Officer, Yorkton Securities Inc.

<u>Name and Municipality of Residence</u>	<u>Director Since</u>	<u>Principal Occupation</u>
Norman F. Thompson West Vancouver, British Columbia ...	1999	President and Chief Financial Officer, Union Securities Ltd.
William L. Hess Calgary, Alberta.....	1999	President and Chief Executive Officer Canadian Venture Exchange Inc.
Two year term		
Kenneth G. Hanna ⁽¹⁾ West Vancouver, British Columbia ...	1999	Corporate Director
John S. Brock ⁽¹⁾ West Vancouver, British Columbia ...	1999	President, John S. Brock Ltd.
John A. Hagg ⁽¹⁾ Calgary, Alberta.....	1999	Chairman of the Board, Northstar Energy Corporation
Harry A. Jaako ⁽¹⁾ West Vancouver, British Columbia...	1999	Chairman, Discovery Capital Corporation
Mary E. Macdonald ⁽¹⁾ Toronto, Ontario.....	1999	President, Macdonald & Associates Limited
Chris Lay ⁽¹⁾ Vancouver, British Columbia.....	1999	Corporate Director

Note: (1) Denotes Independent Director.

If the Transaction is implemented, it has been agreed pursuant to the Acquisition Agreement that the above-noted directors, other than Messrs. Paterson, Hess, Brown, Hagg and Jaako, will resign from the CDNX board of directors and that the TSE shall elect as directors of CDNX the same persons who are the directors of the TSE at the time of Closing.

CDNX Board Committees

It is not intended that CDNX By-law No. 1 will be amended upon Closing to reflect a change in CDNX's current board committees to correspond with the current board committee structure established by the board of directors for the TSE. Accordingly, CDNX will maintain the following board committees following Closing: Executive Committee, Nominating Committee, Finance and Audit Committee and Human Resources Committee. It is, however, anticipated that the number of members on each of these committees will be reduced immediately following the

CDNX Meetings to reflect the reduced size of CDNX's board of directors although the independent director composition mandated for these committees will remain unchanged.

D. Amendment to CDNX Members Agreement, Articles and Other Exchange Requirements

Members Agreement

In order to have access to the trading facilities and certain other services of CDNX and the rights and privileges associated therewith and in order to contractually bind CDNX Class A Shareholders to the requirements and jurisdiction of CDNX, each CDNX Class A Shareholder has agreed to be bound by the provisions of the Members Agreement. The Members Agreement presently provides that each CDNX Class A Shareholder, referred to in the Members Agreement as a "Member", must be the registered and beneficial owner of at least one CDNX Class A Share. If the Transaction is completed, Members will no longer hold any CDNX Class A Shares, and accordingly the Members Agreement will need to be amended to delete this requirement, such amendment to be effective only upon Closing.

The Members Agreement currently provides that it may be amended with the approval of the CDNX Class A Shareholders given by a resolution duly passed by a majority of at least two-thirds of the votes cast in person or by proxy by the CDNX Class A Shareholders at the CDNX Class A Meeting. Any such amendment will be effective at the time specified in the resolution and each CDNX Class A Shareholder will be bound by such amendment at that time without executing or delivering any document to make such amendment which is so approved, unless otherwise provided in the approving resolution.

Accordingly, a resolution ("the "Reorganization Resolution") to be presented at the CDNX Class A Meeting for consideration by the CDNX Class A Shareholders will, if approved, also authorize an amendment to, and restatement of, the Members Agreement, to be effective only upon Closing, to delete the requirement that Members must be the holders of CDNX Class A Shares, and to make certain other consequential amendments.

Articles and CDNX By-law No. 1

The CDNX articles and CDNX By-Law No. 1 also currently define a "Member" as being a CDNX Class A Shareholder which definitions will be required to be amended in the event that the Transaction is approved and implemented. Accordingly, the Reorganization Resolution to be presented at the CDNX Class A Meeting for consideration by the CDNX Class A Shareholders will, if approved, also authorize CDNX to make such amendments as are necessary to the CDNX articles to reflect the change in the definition of "Member" effective upon completion of the Transaction. It will also authorize the CDNX articles to be amended to increase the maximum number of directors to 24, to conform with the maximum number of directors allowable under the articles of the TSE effective upon completion of the Transaction.

The Reorganization Resolution to be presented at the CDNX Class A Meeting for consideration by the CDNX Class A Shareholders will, if approved, also approve the amended and restated CDNX By-law No. 1. The proposed amendments are necessary to reflect the elimination of the requirement of share ownership by members and to provide for a CDNX board composition that will correspond with that of the TSE. In that regard, the amended and restated CDNX By-law No. 1 will provide that *each* of the Chief Executive Officer and President of CDNX shall be deemed to be independent directors within the meaning of CDNX By-law No. 1. Such amendments will only be effective upon completion of the Transaction.

Corporate Finance Policies

Following the Closing, it is anticipated that all corporate finance services and functions provided to CDNX companies will continue to be provided directly by CDNX, including listing considerations (such as policies, marketing and application criteria) and continuous disclosure, compliance and reporting regimes.

Upon Closing, the definition of “Member” as set out in CDNX Policy 1.1. – Interpretation, will require amendment as set out in Schedule “A” hereto to reflect the elimination of the requirement for share ownership by Members.

Pursuant to the Acquisition Agreement, it has been agreed that within 18 months of Closing, the TSE will make such amendments to its original listing requirements and continuous listing requirements, as are appropriate, to ensure that both the CDNX public venture capital market and the TSE will be strengthened and expanded.

CDNX Rules

No changes are anticipated to CDNX’s rules as a result of the Closing of the Transaction other than those identified in the attached Schedule “A” which amendments are necessary to reflect the elimination of the requirements respecting share ownership.

E. Transition of Market Regulation and Trading Systems

Market Regulation

Pursuant to the Acquisition Agreement, it is contemplated that responsibility for regulation of the CDNX market will be transferred to a subsidiary of the TSE and the Investment Dealers Association. The transfer of CDNX’s market regulation functions and operations will not occur immediately after closing and will be subject to prior receipt of any necessary regulatory approvals.

The Acquisition Agreement further provides that investigations and enforcement will continue to be provided at the current CDNX locations and that the necessary expertise respecting the public venture capital market will be retained.

Trading System

Pursuant to the Acquisition Agreement, trading will be centralized on the TSE's NTE system subsequent to the transfer of TSE trading systems to the NTE which is now complete. Functionality to support trading will also be centralized. It is anticipated that other functionality will remain with CDNX, as necessary, until the two exchanges migrate to common technology.

CDNX and the TSE are currently reviewing any functional differences between TradeCDNX and NTE as well as any differences in the current TSE and CDNX trading rules with a view to determining whether these differences, if any, will give rise to any proposed amendments to CDNX's trading rules to facilitate the transitioning of trading to the TSE's NTE system. While the timing of this transition is currently being reviewed, any proposed rule amendments will be filed with the applicable securities commissions for approval as soon as possible such that the transition may occur at the earliest possible date after Closing and, in any event, not later than September 30, 2001.

F. Access to CDNX and the TSE

Access to CDNX

The right of direct access to the facilities of CDNX is governed by contractual arrangements under the Members Agreement. Each CDNX Class A Shareholder who has been accepted as a Member for purposes of the CDNX Exchange Requirements is required to execute an agreement to be bound by the Members Agreement which serves the purpose of granting CDNX Class A Shareholders access to the trading facilities and certain other services of CDNX and binding CDNX Class A Shareholders to the requirements and jurisdiction of CDNX.

As part of the realignment of the Canadian stock exchanges announced on March 15, 1999, the exchanges agreed to permit limited reciprocal access to their respective exchanges by the existing members of the other exchanges who were party to the agreement. Accordingly, access to the trading facilities only of CDNX was granted to non-CDNX shareholders who fell within the category of "CDNX Participating Organizations". CDNX Participating Organizations are contractually obliged, through participating organization agreements, to adhere to the CDNX Exchange Requirements; however, such access rights do not entitle CDNX Participating Organizations to participate in the ownership or governance of CDNX. The Transaction will not affect CDNX Participating Organizations.

Following completion of the Transaction, the TSE will be the sole shareholder of CDNX. Access to the facilities of CDNX enjoyed by former CDNX Class A Shareholders who continue to be Members in good standing pursuant to CDNX Exchange Requirements will continue pursuant to the terms of the amended Members Agreement. Such access shall continue to include the right to act as a sponsor in accordance with CDNX Exchange Requirements.

Access to the TSE

In order to access the TSE, an organization must become a "TSE Participating Organization". This is a contractual arrangement with the TSE and is not contingent upon holding shares in the TSE. Those CDNX Members who are not currently TSE Participating Organizations will be granted TSE Participating Organization status upon application to the TSE, provided that they meet current TSE requirements.

G. Request for Regulatory Approval

CDNX hereby requests regulatory approval of the Transaction as well as certain amendments to CDNX's articles, by-laws, rules and corporate finance policies as described herein and as are necessary to give effect to the Transaction such that the Closing of the Transaction may occur on or before July 31, 2001, subject to the CDNX Meetings and the TSE Meeting being convened and the requisite approvals of the CDNX and TSE shareholders being obtained on May 29, 2001.

Should you have any questions respecting the foregoing application, we would be pleased to meet with you at your earliest convenience.

Thank you.

Yours truly,
Canadian Venture Exchange Inc.



William L. Hess, QC
President & CEO

cc: Ontario Securities Commission, David Brown, Chair
Manitoba Securities Commission, Donald Murray, Chair
Barbara Stymiest, President and CEO, TSE
Leonard Petrillo, Vice President and General Counsel, TSE

Schedule “A”

A1.01 Definitions

“Exchange auditor” means chartered accountants appointed ~~by the members~~ at an annual meeting of the Exchange.

“Independent director” ~~has the same meaning as defined in CDNX By law No. 1.~~ means a person who, at that time of his or her appointment as a director of the Exchange is, and for at least 12 months immediately preceding that appointment was, independent of the Exchange and its shareholders and for this purpose a person is not independent who is:

- (a) a person who is a director, officer, or employee of a member or Participating Organization;
- (b) is a member of the immediate family of a person referred to in paragraph (a); or
- (c) a person who beneficially owns 5% or more of the outstanding voting shares or partnership interest in a member or Participating Organization

and for the purposes of clause (b) the immediate family of a person referred to in clause (a) includes that person’s spouse, parent and child, and a relative of that person or that person’s spouse who resides with that person. For the purpose of this definition, (i) the Chief Executive Officer and the President of the Exchange shall each be deemed to be independent and (ii) a person shall be independent if he or she is determined to be independent by the board, unless determined otherwise by a regulatory authority.

“Member” means a Person who ~~is a beneficial holder of one or more Class A Shares of the Exchange,~~ has executed the ~~m~~Members’ agreement, as amended from time to time, and is accepted as and becomes a member of the Exchange under the Exchange Requirements.

“Members’ Agreement means the members’ agreement among the Exchange and each Person who, from time to time, is accepted as and becomes a member of the Exchange.

~~“Share” when used in relation to the Exchange means Class A voting common shares.~~

C.2.61 Ceasing to be a Trader

1. An individual who is a trader shall cease to be a trader:
 - a. when the Exchange withdraws its approval of the individual;
 - b. when the Board orders that the Member the individual represents has ceased to be entitled to be a Member of the Exchange;
 - c. when the Board orders that the Member the individual represents is a defaulter;

- d. when the Member the individual represents surrenders their [seatmembership](#);
- e. when the Member the individual represents requests the Exchange to remove his or her name from the list of traders;
- f. when a trader ceases to be a trader, the Exchange shall remove the individual's name from the list of traders.

C.2.67 SeatholderMember as Trader

A Member ~~Seatholder~~ may act as a trader without requiring the approval of the Exchange.

D.1.01 Member as Shareholder (Deleted)

~~Each member of the Exchange, at the time of their admission to membership and throughout the term of his membership, shall hold at least one share. Where a member ceases to hold a share, its membership shall terminate automatically.~~

D.1.02 Number of Shares Held (Deleted)

~~No member shall hold shares other than in accordance with CDNX By law No. 1 and any applicable unanimous shareholders agreement.~~

D.1.03 Appointment of Designated Member-Shareholder

1. Each member shall appoint one of its partners, officers or directors as its designated member-~~shareholder~~; Until such time as the member appoints a designated member the former member-shareholder shall be deemed to be the designated member;
2. Each designated member-~~shareholder~~ at the time of his appointment:
 - a. shall be approved as such by the Exchange and the Board and shall be a resident of Canada,
 - b. shall have had experience acceptable to the Exchange and the Board;
3. The appointment of a designated member-~~shareholder~~ shall be effective on approval being given by the Exchange and the Board. Appointments may be revoked or changed from time to time only with the approval of the Exchange and the Board but shall terminate automatically if the designated member-~~shareholder~~ ceases to be a partner or director (as the case may be) of the member, a resident of Canada or if the Exchange and the Board withdraw their approval of him. Any vacancy in an appointment shall be filled promptly. The

term “designated member-~~shareholder~~” also includes a member who is a natural person.

D.1.04 **Designated Member ~~Shareholder~~ Represents Member**

The appointment of a designated member-~~shareholder~~ shall be in writing in the form from time to time prescribed by the Exchange, filed with the Exchange and shall constitute each designated member-~~shareholder~~ the representative of the member for all dealings with the Exchange with full authority to speak for and bind the member. ~~The appointment shall also authorize the member-shareholder to appoint proxies (who may but need not be the member-shareholder) to attend and vote at meetings on behalf of the member and to cast the member's ballot on its behalf under the Exchange By law.~~ It shall be the duty of the designated member-~~shareholder~~ to ensure that the member, each related company of it and the partners in and shareholders, directors, officers and employees of the member and each related company, comply with ~~the by-laws, rules and regulations of the~~ Exchange Requirements. The designated member-~~shareholder~~ will be primarily responsible to the Exchange for their conduct, but without in any way limiting the duties and liabilities of others under ~~the by-laws or rules of the~~ Exchange Requirements.

D.1.06 **Deceased Member**

In the case of the death of a member who is a natural person, his legal representative may exercise the deceased member's rights and privileges ~~until his share is sold but in no case shall the legal representative exercise the deceased member's rights and privileges for more than ninety days after death or longer period permitted by the Exchange and~~ provided that the legal representative shall only exercise the rights and privileges of trading at sessions through attorneys whose names appear on the list of attorneys approved by the Exchange.

D.1.46 **Application for Membership**

Persons applying for membership ~~and members applying to purchase shares from members or the Exchange~~ shall make application to the Board in the form and pay the fees prescribed by the Board. The Board may in its discretion submit or decline to submit an application to the Exchange. Approval by the Board is a condition precedent to the submission of an application for membership or a transfer of a membership in the Exchange. Notwithstanding the foregoing, in the event of a merger or amalgamation of a member with a member of another recognized stock exchange, the Board may, at its discretion, determine that the application may be approved or rejected and, in the case of a rejection, that the provisions of this rule do not apply.

D.1.47 Voting of Members on Application

Upon approval of an application for membership in the ~~Corporation~~ Exchange by the Board, or its delegate, a poll of the members (the “Poll”) shall be conducted for the purpose of accepting or rejecting the application for membership. The Poll shall be conducted in accordance with the following procedures:

- ~~4.~~ All members, in good standing, ~~who may be entitled to vote at a meeting of the Corporation~~ shall be given written notice of the Poll which notice shall include a summary of the information about the applicant and the application, shall include a form of ballot for completion by each Member and shall specify the date on which such ballot must be returned to the Exchange provided that such date must not be less than five (5) business days after the notice has been deemed to be delivered to all Members under subsection (2).

D.1.51 Payment to Exchange (Deleted)

~~Where a transfer of membership has been granted under Rule D.1.50, a transferee shall pay the purchase price to the Exchange which, after deducting all fees, subscriptions, dues, assessments and unpaid fines, if any, due to the Exchange from the transferor, shall pay over the remainder to the transferor of the membership.~~

D.1.53 Lien on Share (Deleted)

~~The Exchange shall have a first and paramount lien on every share, and the proceeds of sale, lease or other disposition thereof, as security for the payment and discharge of all indebtedness, obligations and liabilities of any kind, now or hereafter existing, direct or indirect, absolute or contingent, joint or several of the shareholder (whether or not also a member) to the Exchange, including, without limitation, any fees and charges payable by the shareholder or member, any liability for assessments of the member by the Exchange in respect of contributions to the Canadian Investor Protection Fund or any successor or assignee of such fund or any liability of the Exchange to the said fund or any successor or assignee of the said fund as a result of the insolvency of the member. No equitable or other interest in any share or such proceeds shall be created except subject to such lien and such lien shall only be released when all such indebtedness, obligations and liabilities have been paid or discharged.~~

D.1.55 Forfeiture of Share (Deleted)

~~The Exchange may, upon expulsion of a member and/or forfeiture of their share(s), offer and sell the share(s) at such price as the Exchange, in its sole discretion, considers acceptable. The proceeds of the sale of the share(s) shall, after deduction by the Exchange of all monies owing to it by the expelled member, be paid by the Exchange to the expelled member. The receipt of the money by the expelled member or shareholder shall constitute an absolute discharge and release~~

~~to the Exchange by the expelled member or shareholder of all claims whatsoever and the expelled member or shareholder shall execute a release in a form satisfactory to the Exchange prior to the Exchange paying over the money.~~

D.1.56 Certificate, Title and Disbursement (Deleted)

~~A member, upon purchasing a share, falling within Rule D.1.55 and receiving the approval of the Board, shall receive a certificate as set forth in Rule D1.54. The title to the share shall not be affected by any error, omission, irregularity or invalidity of proceedings prior to the transfer. A member acquiring a share falling within Rule D.1.55 is not required to see to the disbursement of the money paid to the expelled member.~~

D.1.57 Purchase and Sale of Shares by the Exchange (Deleted)

~~The Exchange may buy or sell shares of the Exchange at a price and upon terms prescribed by the Board or as provided in Rule D.1.55.~~

D.1.59 Sale of Share (Deleted)

~~Prior to the completion of the sale of any share, the Exchange may require that the member provide:~~

- ~~1. a balance sheet of the member reported upon by the member's auditor without qualification as of such date as the Exchange may require, which balance sheet shall indicate that the member has liquid assets sufficient to meet all its liabilities, if any; or~~
- ~~2. a report from the member's auditor without qualification that in his opinion the member has liquid assets sufficient to meet all its liabilities other than subordinated loans, if any; or~~
- ~~3. a report without qualification from a self-regulatory organization that the member has liquid assets sufficient to meet all its liabilities other than subordinated loans, if any, and a report from the member's auditor that clients' free securities are properly segregated.~~

D.1.60 Assessments, Fees, Fines and Charges

Each member shall pay those assessments, fees, fines and charges fixed by the Exchange or the Board which become due and payable to the Exchange at the time or times and in the manner directed by the Exchange.

D.1.61 Insolvency and Bankruptcy

1. If any member becomes insolvent or bankrupt as hereinafter defined the member concerned shall thereby automatically and without the necessity of any action by the Board, become suspended from the exercise of the privileges of membership and notice thereof shall be mailed or delivered to each member.

2. A member shall be deemed to be insolvent if:
 - a. it is for any reason unable to meet its obligations as they generally become due,
 - b. it has ceased paying its current obligations in the ordinary course of business as they generally become due, or
 - c. the aggregate of its property is not, at a fair valuation, sufficient or, if disposed of at a fairly conducted sale under legal process, would not be sufficient to enable payment of all its obligations, due and accruing due.
3. A member shall be deemed to be bankrupt if it has committed an act of bankruptcy as set forth in the Bankruptcy Act of Canada.

~~4. The seat of any member who has been suspended by reason of such insolvency or bankruptcy may at any time be declared forfeit to the Exchange by the Board who may thereupon proceed to dispose of the same and to distribute the proceeds thereof in accordance with the Exchange Rules.~~

D.2.03 Participating Organization subject to Exchange Requirements

1. Subject to subsection (2), a Participating organization shall be subject to and bound by Exchange Requirements, including the limitation of liability and indemnification provisions of Rule D.4.00, as if it were a member and Exchange Requirements shall be construed accordingly.
2. A reference in Exchange Requirements:
 - a. to a member, or to a member corporation or member firm, shall be deemed to be also a reference to a Participating Organization, or to a Participating Organization that is a corporation or a partnership as the case may be, or
 - b. to membership shall be deemed to be also a reference to the status of Participating Organization

except for Exchange Requirements relating to ~~(i) the ownership, voting, disposition and forfeiture of Shares, (ii)~~(i) the corporate and other internal governance of the Exchange, and ~~(iii)~~ the sponsorship of any issuer for listing on the Exchange, all of which shall not apply to a Participating Organization.

E.1.16 Penalties

1. Where a person under the jurisdiction of the Exchange has committed an Infraction, any one or more of the following penalties may be imposed:
 - a) a reprimand;
 - b) for each violation a fine not to exceed the greater of:
 - i) \$1,000,000; and
 - ii) an amount equal to three times the pecuniary benefit which accrued to the person as a result of committing the violation;
 - c) suspension of membership with or without conditions;
 - d) suspension, withdrawal or revocation of any Exchange Approval, with or without conditions, including a requirement for a Fitness Hearing prior to reinstatement;
 - e) expulsion from Membership;
 - ~~f) forfeiture of the Member's Share(s) or the Member's right to use a Share(s) of the Exchange;~~
 - g) initiation of the appointment of a receiver or a receiver-manager of a Member;
 - h) any other penalty or remedy determined to be appropriate under the circumstances.

E.1.17 Share Forfeited to Exchange (Deleted)

~~Where a Member is expelled and the Member's Share(s) is forfeited to the Exchange, the Exchange shall hold title to the Share(s) and may offer the Share(s) for sale. In the event of a sale, the Exchange shall pay over the proceeds to the former Member after deducting any unpaid fines, dues, subscriptions, assessments or costs.~~

Corporate Finance Policy 1.1

~~"Member" See the definition in Rule A.1.00. Generally, means a Company that owns one or more shares in the capital of the Exchange and it permitted access to trading privileges through the Exchange~~ means a Person who has executed the Members' Agreement, as amended from time to time, and is accepted as and becomes a member of the Exchange under the Exchange Requirements.