

13.1.6 CNQ Notice and Request for Comments – Proposed Policy Change to Policy 6 – Distributions Regarding Amendment of Warrant Terms

**PROPOSED POLICY CHANGE
POLICY 6 – DISTRIBUTIONS – AMENDMENT OF WARRANT TERMS**

NOTICE AND REQUEST FOR COMMENTS

April 17, 2007

The Board of Directors of Canadian Trading and Quotation System Inc. (“CNQ”) has passed a resolution to amend CNQ Policy 6 upon Ontario Securities Commission approval following public notice and comment. The text of the proposed rules is attached as Appendix “A”. A proposed “Form 13 – Notice of Amendment of Warrant Terms” is attached as Appendix “B”.

The Board has determined that the proposed amendments are in the public interest and have authorized them to be published for public notice and comments. Comments should be made no later than 30 days from the date of publication of this notice and should be addressed to:

Canadian Trading and Quotation System Inc.
BCE Place, 161 Bay Street
Suite 3850, P.O. Box 207
Toronto, ON
M5J 2S1

Attention: Mark Faulkner, Director, Listings and Regulation
Fax: 416.572.4160
Email: Mark.Faulkner@cnq.ca

A copy should be provided to the Ontario Securities Commission at the following address:

Capital Markets Branch
Ontario Securities Commission
Suite 1903, Box 55
20 Queen Street West
Toronto, ON
M5H 3S8

Attention: Cindy Petlock, Manager, Market Regulation
Fax: 416.595.8940
Email: cpetlock@osc.gov.on.ca

Proposed Change

CNQ is proposing changes to Policy 6 (the “Policy”) that will provide for the amendment of terms of previously issued warrants issued pursuant to a private placement or acquisition. They do not affect listed warrants or warrants issued as compensation, which cannot be amended.

Rationale

CNQ listed companies are primarily emerging issuers that rely on financing activity to fund operations. The ability to amend terms of warrants that would otherwise expire without being exercised provides a way for Issuers to raise additional funds from sources that have previously invested in the company. The increased flexibility will increase the attractiveness of primary offerings by CNQ listed companies. The proposed changes will make CNQ policy similar to the policies of other Canadian stock exchanges and will be readily understood and accepted by the financial community.

Description of Change

Policy 6, Section 7.4 currently states “Except in exceptional circumstances and with the prior consent of CNQ, CNQ Issuers must not change, modify or amend the characteristics of outstanding warrants or other convertible securities other than pursuant to standard anti-dilution terms. For greater certainty, the fact that a convertible security will expire out of the money is not an “exceptional circumstance”

The amended section 7 includes the addition of a maximum permitted term of 5 years, where there was previously no maximum, and specific criteria that must be met for extending terms or amending exercise prices of warrants. The section provides for the amendment of warrant terms if: the warrants are not listed for trading; the exercise price is higher than the current market price, no warrants have been exercised in the last six months; and at least 10 trading days remain before the expiry date.

The term of a warrant may not be extended beyond 5 years from the date of issuance, and the exercise price may be amended once, subject to a number of conditions. An Issuer may amend the exercise price if the warrants were priced above the market price at the time of issuance and amended is also at or above that price; and, the amended price is at or above the average closing price of the listed shares for the last 20 trading days (or average of the bid/ask on days with no trading).

An Issuer may amend the exercise price to a price below the market price at the time of issuance, provided that if for 10 consecutive trading days the closing price of the listed shares exceeds the amended price by the applicable private placement discount the terms of the warrants must also be amended to 30 days, commencing 7 days from the end of the 10 day period. In this case, consent must be obtained from all holders of the warrants.

A maximum of 10% of the total warrants to be repriced may be repriced for insiders. If insiders hold more than 10% of the total, then the allowable 10% will be allocated *pro rata* among those insiders.

Disclosure must be made by press release and filing of new Form 13 – Notice of Amendment of Warrant Terms.

Impact of the Proposed Change

The proposed changes would have a minor overall positive impact on the ability of listed companies to raise capita. Not all companies would take advantage of the changes, however, those that could potentially receive a great benefit from increased financing flexibility.

Consultation

CNQ has had several discussions with listed companies and their respective counsel regarding the proposed changes. While these were not systematic consultations it is clear that they believe that such changes would be beneficial to CNQ listed companies and would not cause undue dilution to shareholders.

Alternatives

CNQ considered maintaining the prohibition on amendments to privately-issued warrants. It was rejected as it could cause hardship to CNQ listed companies and be an incentive to list on an exchange that does permit amendments.

Another option was to impose no restrictions on the amendments that could be made. This was rejected as it could result in excessive dilution of existing shareholders. The proposal attempts to reach a balance by imposing a maximum term for warrants as a quid pro quo for allowing extensions.

Comparable Policies

Other Canadian stock exchanges have similar provisions for the amendment of warrant terms.

Questions

Questions regarding this notice may be directed to:

Mark Faulkner
Director, Listings & Regulation
Canadian Trading and Quotation System, Inc.
161 Bay Street, Suite 3850
Toronto, Ontario M5J 2S1

Fax: 416-572-2000
e-mail: mark.faulkner@cnq.ca

APPENDIX "A"

7. Options, Warrants and Convertible Securities Other Than Incentive Options or Rights

7.1.1 Issue Price

~~Quoted Listed~~ securities issuable on conversion of an option, warrant or other convertible security other than an incentive option or right (collectively, "convertible securities") may not be issued at a price (including the purchase price of the convertible) lower than the closing market price of the listed security on the CNQ System on the Trading Day prior to the earlier of dissemination of a news release disclosing the issuance of the convertible security or the posting of notice of the proposed issuance of the convertible security. For example, if the closing price of the common shares of a CNQ Issuer was \$0.50 and a warrant was sold at \$0.05, the exercise price of the warrant could not be less than \$0.45. If a convertible preferred share were issued at \$1.00, it could not be convertible into more than 2 common shares.

7.1.2 Term

The maximum term permitted for warrants is 5 years from the date of issuance.

7.2 If convertible securities are issued in connection with a private placement of the listed securities, the total number of listed securities issuable under the terms of the convertible securities cannot be greater than the number of listed securities initially purchased in the private placement.

7.3 In all other respects, the provisions of this Policy apply to the issuance of convertibles. Please refer to section 2 for further requirements for private placements of convertibles, section 3 for issuances of convertibles in connection with an acquisition and section 4 for prospectus offerings.

7.4 ~~Except in exceptional circumstances and with the prior consent of CNQ, CNQ Issuers must not change, modify or amend the characteristics of outstanding warrants or other convertible securities other than pursuant to standard anti-dilution terms. For greater certainty, the fact that a convertible security will expire out of the money is not an "exceptional circumstance."~~ Amendments to Warrant Terms

7.4.1 An Issuer may amend the terms of private placement warrants (not including warrants issued to an Agent as compensation) if:

- a) The warrants are not listed for trading;
- b) The exercise price is higher than the current market price;
- c) No warrants have been exercised in the last six months; and
- d) At least 10 trading days remain before the expiry date.

7.4.2 The amendment of warrant terms must be disclosed in a press release, and a notice posted to the CNQ website immediately thereafter (Form 13 – Notice of Amendment to Warrant Terms).

7.4.3 Warrant Extension

The term of a warrant may not be extended more than 5 years from the date of issuance.

7.4.4 Warrant Repricing

An Issuer may amend the exercise price of warrants if:

- a) The warrants were priced above the market price at the time of issuance and the amended price is also at or above that price;
- b) The amended price is at or above the average closing price of the shares for the last 20 trading days or average of the closing bid/ask on days with no trading; and
- c) The price has not previously been amended.

7.4.5 An Issuer may amend the exercise price to a price below the market price at the time of issuance provided that:

- a) If for 10 consecutive trading days the closing price of the listed shares exceeds the amended price by the applicable private placement discount the terms of the warrants must also be amended to 30 days, commencing 7 days from the end of the 10 day period;
- b) Consent is obtained from all holders of the warrants; and
- c) The price has not previously been amended

7.4.6 A maximum of 10% of the total may be repriced for insiders holding warrants. If insiders hold more than 10%, then the 10% allowed will be allocated *pro rata* among those insiders.

7.5 CNQ Issuers must obtain appropriate corporate approvals prior to any change, modification or amendment of outstanding warrants or other convertible securities (including non-listed securities).

APPENDIX "B"

FORM 13

NOTICE OF AMENDMENT OF WARRANT TERMS

Name of CNQ Issuer: _____ (the "Issuer").

Trading Symbol: _____

Date: _____

Date of Press Release announcing amendment: _____

Closing price of underlying shares on the day prior to the announcement: _____

Closing price of underlying shares at the time of issuance _____

1. Current terms of warrants to be amended:

<u>Date Issued</u>	<u>Issue Price</u>	<u>Exercise Price</u>	<u>Market Price of underlying shares</u>	<u>Number of Warrants</u>	<u>Expiry Date</u>	<u>Percentage of Warrant class held by Insiders</u>

Pursuant to Policy 6, Section 7.4, Amendments are permitted provided that:

- a) _____ The warrants are not listed for trading;
- b) _____ The exercise price is higher than the current market price;
- c) _____ No warrants have been exercised in the last 6 months;
- d) _____ At least 10 trading days remain before expiry.

2. Amendment(s)

- a) _____ Extension – amended expiry date:

The term of a warrant may not extend past the date that would have been allowed on the date of issuance.

- b) _____ Repricing – amended exercise price:

If the amended price is below the market price at the time the warrants were issued, and below the average closing price for the last 10 trading days by more than the permitted private placement discount, the term must be amended to 30 days. The 30 day term will commence 7 days from the date of this notice.

3. Amended terms of warrants:

<u>Date Issued</u>	<u>Issue Price</u>	<u>Exercise Price</u>	<u>Market Price of underlying shares</u>	<u>Number of Amended Warrants</u>	<u>Expiry Date</u>	<u>Percentage of Warrant class held by Insiders</u>

Amendment of warrants may be considered a distribution under applicable Securities Laws, which may require exemptions. Issuers are encouraged to consult legal counsel prior to amending the terms of warrants.

4. Certificate of Compliance

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Certificate of Compliance.
2. As of the date hereof there is no material information concerning the Issuer which has not been publicly disclosed.
3. The undersigned hereby certifies to CNQ that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all CNQ Requirements (as defined in CNQ Policy 1).
4. All of the information in this Form 13 Notice of Amendment of Warrant Terms is true.

Dated _____.

Name of Director or Senior Officer

Signature

Official Capacity