

EFFICIENCY AND COMPETITIVE  
SUSTAINABILITY OF  
PUBLIC VENTURE MARKETS-  
FROM A LISTING PERSPECTIVE

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## **PREFACE**

This study was conducted at the behest of TSX Venture Exchange to compare its listing practices with other exchanges and ascertain what measures will improve the Exchange's overall business prospects from a listing perspective.

The study was carried out under the backdrop of both evolving regulatory and institutional changes in the global stock markets. We have reviewed listing practices prevalent in the TSX Main Market, TSX Venture Exchange, AIM-London, Australian Stock Exchange, NASDAQ Small Cap Market, NASD OTC Bulletin Board, Pink Sheets and CNQ. The sample in our study contains an integrated marketplace such as the Australian Stock Exchange, and 7 segmental marketplaces. We call the latter, segmental marketplaces, as there are other markets in those countries, which are either competing or supplementing the overall market space. Moreover, particularly, in the case of TSX Main Market and TSX Venture Exchange, we may encounter the problem of overlapping since TSX Venture Exchange evolved out of the merger of competing regional exchanges and was taken over by TSX Group. The sample is heterogeneous as far as the overall regulatory structures of these markets are concerned as some of them are considered to be stock exchanges while others are not. Secondly, they have different regulatory mandates with regard to disclosure, compliance and other requirements. They also address different segments of the market space. Thus we believe that our study will bring in enough diversity both within a region, such as North America, and across different countries. However, as far as regulatory evolution is concerned, markets in our sample have a commonality as all of them have evolved from British Common Law, except that Canada has witnessed some influence of the French Civil Law in the past.

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## **EFFICIENCY AND COMPETITIVE SUSTAINABILITY OF PUBLIC VENTURE MARKETS- FROM A LISTING PERSPECTIVE**

### **Introduction**

The efficiency and competitive sustainability of a public venture market rests on four pillars, viz., 1) government policy initiatives/support, 2) creating and maintaining a market conducive for raising risk capital, 3) instilling investors' confidence in such market and 4) a robust and efficient regulatory environment overseeing such market.

Typical venture capital markets being providers of risk capital attract investors who are risk takers. While private venture capital markets are largely nurtured by high net worth and institutional investors under the active mentorship of professional venture capital fund managers, public venture capital markets are largely open to small and medium size investors who have some appetite for risk<sup>1</sup>, and to the managerial and business acumen of entrepreneurs and their affiliates.

Both the markets have their merits and demerits. Private venture capital markets have the advantage of their professional fund managers' expertise in identifying and managing venture investments but have the disadvantage of multitudes of valuation techniques and limited exit opportunities. To some extent, private venture capital markets do not provide as much diversity as public venture capital markets and are restricted by the investment themes of their fund managers. Since they provide limited exit opportunities, investors need to have more staying power in private venture capital investments and work out valuation techniques that suit their investment objectives. On the other hand, public venture capital markets by their very nature provide investors a better opportunity to diversify their risks as well as continuous exit options through a broad-based market driven valuation technique.

Secondly, private venture capital markets generally attract large high net worth and institutional investors who are sophisticated enough to evaluate the investment opportunities offered to them. For the purpose of our study we call them sophisticated investors and we assume that such investors have superior analytical abilities to ask for the specific information they may be looking for in an investment opportunity. Moreover, due to larger stake put in by them in an investment opportunity, these

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<sup>1</sup> According to a survey conducted by Market Probe Canada, TSX Venture Exchange one of the oldest public venture markets in the world only attracts 3.9% of Canadians, or about 17% of direct stock investors own stock on TSX Venture Exchange. Source: Market Probe Canada, November 24, 2004.

investors occupy controlling positions to supervise and monitor its business process. On the other hand, public venture capital markets by their very nature provide a broad-based market of investment opportunities where participation in such opportunities can be drawn from both large-sophisticated and small-unsophisticated investors. Thus public venture capital markets provide a wider scope for raising capital and are superior to private venture capital markets as they are in a position to attract capital both from the sophisticated and unsophisticated investors. In order for these markets to be efficient, corporate information is required to be provided in a lucid and timely manner, so that common investors can understand and evaluate such investments and persons who are in a position to gain prior access to such information may not be able to take advantage of such information at the cost of others. Moreover, the participating market intermediaries need to adopt very high moral and ethical business standards and scrutinize corporate information, so that information delivered to the common investors is fair, transparent and free of biased or misleading intentions. In this context, it is necessary that the marketplace as well as all the market participants set high disclosure standards for themselves as well as for the corporate issuers and establish efficient procedures for faster dissemination of information, so that the gap between informed and uninformed investors can be minimized. These will be the core value premises of investor protection and in a constantly evolving marketplace scenario, the very essence of the existence and success of a public venture capital market. Efficient dissemination of information and higher disclosure standards will, on the one hand, eliminate uneconomic projects, corporate frauds and various expropriation techniques adopted by dishonest promoters and their associates, while on the other hand, it will educate common investors and instill confidence in them, thus broadening the scope of the marketplace and increasing the pace of economic development and wealth creation.

Public venture capital markets being a conduit for economic development and wealth creation should also provide necessary incentives both for risk adventure, i.e., for people pursuing creativity and innovation, and for the provider of risk capital, i.e., investors who are supporting such activities. This will serve a dual purpose of increasing appetite for risk capital and compensating for additional risks.

Thus, public venture capital markets as providers of risk capital have a far larger role to play in the economic sustainability of a country in terms of providing financial support to new business ideas and in nurturing creativity and innovation. In this context, efficiency and competitive sustainability of these markets can be considered to be more a matter of national policy and public concern, than mere profit motives of the managing organizations.

### **What is a Public Venture Capital Market?**

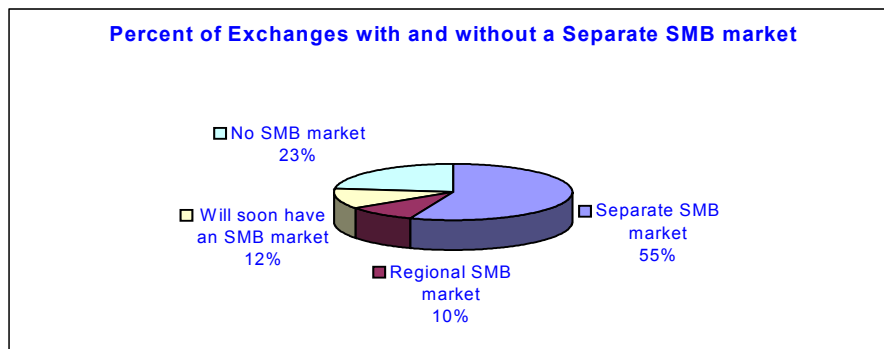
A public venture capital market is a marketplace, which provides a nurturing ground for small and medium-sized companies to raise capital, allows such companies to quote their securities and helps create a secondary trading environment in such securities so that investors can participate in them. It provides greater visibility to budding companies, fostering their growth and at the same time encourages greater disclosure of information

so that investors can make informed decisions. It also creates a competitive environment among companies aspiring to raise capital to deliver better investment opportunities, as investors have the choice of making their investment decisions from among a variety of investment options.

Since a majority of the issuing companies coming into these markets have novel business ideas, technologies, products or services and do not have a previous track record of business operations, investment in these companies is typically associated with high risk, high growth, failure or uncertainty. Therefore, these markets are highly speculative and volatile and may attract only mature or sophisticated investors. Moreover, since these markets cater to small and medium-sized new companies, the admission requirement of these markets may be totally different from the markets for established companies. On the one hand, these markets can have minimum admission requirements, leaving it entirely to the issuing companies to decide on what they need or want to disclose (voluntary disclosure) and the common investors to decide where they want to invest, or they may require higher level of disclosure standards and regulations, so that some kind of screening is done by the marketplace before the issuers are allowed to approach the common investors. In the former case, if the marketplace is not sophisticated enough, it may lead to abuse by the issuing companies and their associates, while, in the latter case, too much regulation may stifle the fund raising process of issuing companies, making it a difficult and costly proposition, and as an outcome may hinder business growth and the wealth creation process. It also depends on the business model these markets need to adopt so that they are sustainable and profitable.

In some countries, securities of new companies are traded on an over-the-counter (OTC) regulated market, while in others, the respective stock exchanges have a separate market for new companies and different set of admission or listing rules. There are some countries where a separate market for new companies does not exist at all and such companies are listed on their main markets. In the US, all these markets exist, such as NASDAQ Small Cap, NASD OTC Bulletin Board, Pink Sheets, while in countries like Korea, Taiwan, Singapore, such companies are traded on their respective OTC markets only. In some other countries, new companies are traded on a separate market such as (TSX Venture Exchange- TSX Group, Canada), a Parallel Market (Muscat Stock Exchange, an Enterprise Market(Australian Stock Exchange), a New Market (Neuer Markt- Deutsche Borse, Nouveau Marché- Paris Bourse, Novo Mercado- Brazil), an Alternative Investment Market (London-AIM), a Developing Companies Market(DCM-Ireland), a Growth Market (Austrian Growth Market- Austria) or a Second Board ( Kuala Lumpur Stock Exchange, Malaysia). These are all public venture capital markets.

A focus group study by FIBV in 1999 showed that of 52 FIBV member exchanges, 29 had a separate venture market, 5 had a regional venture market, 6 were planning to have a venture market in the near future, and 12 did not have a venture market.



Since then, some of these markets have been assimilated into their main markets such as in Australia, Germany, and Israel on account of vertical market integration strategy of their respective managing organizations, while some other markets such as the new markets in European Union have been integrated into a larger cross-border framework of merged stock exchanges of Belgium, France, the Netherlands and Portugal into the pan-European Exchange- Euronext<sup>2</sup>.

### **Evolving trends in marketplaces**

In a continuously evolving market place scenario where demutualization, for-profit market organizations, cross-border convergence, vertical and horizontal integrations have taken centre stage, competition among existing stock exchanges or marketplaces have grown more than ever. Developed markets or exchanges are thriving to grab market share and attract companies across the continent in fast developing countries such as China and India. Within their organization set-ups, they are striving hard to reduce cost and improve efficiency by leveraging on existing infrastructure such as trading system, information dissemination mechanism, clearing houses, introducing new products and even growing into related product areas where their existing infrastructure could provide a ready launching pad. At the upper end of these markets comprising prime established companies, there is a huge threat from ECNs which are constantly changing the pace of market price realizations and trading algorithms. ECNs which started off as a natural consequence to OTC markets' inefficiency (wide spreads, non-firm quotes and gaming) in the US, following RegATS in 1998, quickly captured a huge market share of the OTC

<sup>2</sup> Responding to the new regulatory environment (Markets in Financial Instruments Directive - MiFID), Euronext opened two non-regulated markets in 2004: the Marché Libre in Brussels for companies aiming to raise capital with a minimum of constraints, and Mercados Estructurados in Lisbon, especially for issuers of structured products requiring fast-track listing.

Euronext also announced the launch of Alternext in May 2005, a new, structured, organized market that is unregulated according to the directive. This market will help Euronext offer to companies that want to raise capital in the euro-zone simplified market access in exchange for a commitment to financial transparency and investor protection. At Euronext Paris, companies listed on the Premier, Second and Nouveau Marché were transferred to the new list on 21 February 2005 and assigned the indicator A, B or C, identifying companies with capitalization of over €1 billion, between €150 million and €1 billion, and below €150 million, respectively. Companies listed on the regulated markets of Amsterdam, Brussels and Lisbon were switched on 4 April 2005. We believe, Euronext is still in the process of integrating and harmonizing its markets.

markets. Since then, they have clearly emerged as strong contenders for listed market places and have a clear advantage in increasing their market share post-implementation RegNMS by SEC<sup>3</sup>. However, in Europe, between 1992(Germany) and 1999( Norway and Austria) , the European stock exchanges installed central limit order book (CLOB) system and have been providing investors the main features of an ECN<sup>4</sup> (Appendix- C).

A similar proposal has been proposed by the European Union through the promulgation of Markets in Financial Instruments Directive (MiFID) which will come into force from April 30, 2007 providing for order pass-through so that securities orders can be executed on any stock exchange or ATSS.<sup>5</sup>

Realizing the threats by ECNs, exiting stock exchanges initiated both quote-driven and order-driven trading systems with the launch of Direct+ by NYSE and SuperMontage by NASDAQ. These exchanges have also acquired existing ECNs in order to retain their market share in the order-driven segment<sup>6</sup>. NASDAQ has also decided to transfer its OTCBB business to NASD in a move to streamline its market place.

A third category of marketplace ‘crossing system’ was started by institutional investors to facilitate trading by members<sup>7</sup>, for example, Liquidnet. A similar trend is being noticed around the globe. Most of the exchanges around the world have either started their own electronic trading platform or are trying to take over existing order-driven platforms to protect their market share. Some of them find a strategic business synergy in related products and services areas such as trading in derivatives, foreign exchange and commodities, or in clearing and settlement operations and may opt for business expansion in that direction<sup>8</sup>. While continuous hunting and poaching of trading space

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<sup>3</sup> SEC’s RegNMS (National Market System) contemplates trade-through relief and market data reform for market places with the opt-out option choice for trade-through rule by ATSS in furtherance of developing market integration through a central limit-order book system. ECN’s share of trading volume of NASDAQ-listed shares crossed the 53% mark (INET- 25%, Brut- 9% and ArcaEx- 19%) by May 2004 . Source: Securities Industry News.

<sup>4</sup> ‘Alternative trading system: a catalyst of change in securities trading’, Deutsche Bank Research, No. 7, January 11, 2005.

<sup>5</sup> European Commission’s initial proposal was to make MiFID effective from April 30, 2005, however, due to delay in necessary transposition and implementation by Member States, it has extended the effective date by one year.

<sup>6</sup> While NYSE launched Direct+ in 2001, NASDAQ launched SuperMontage in 2002, both are automated order-driven trading systems. Currently, NYSE is going through a merger with Archipelago and will implement NYSE Hybrid Market which will offer customers a choice between automated trading, auction market and electronic trading on AcraEx, while NASDAQ has taken over INET ECN of Instinet, an order-driven trading system emerging out of Instinet ECN and former Island ECN. NASDAQ has also agreed to transfer the OTCBB business and the trade reporting of all other OTC securities to NASD. Source: Various recent press releases of the respective organizations.

<sup>7</sup> Liquidnet was launched in April 2001 as an exclusive global trading community with 271 institutional members. It imposes no membership fees and is open to buy-side investment institutions. Brokers are not permitted to join. In the first half of 2004, Liquidnet was trading 20 million shares a day on an average. Source: ‘Alternative trading system: a catalyst of change in securities trading’, Deutsche Bank Research, No. 7, January 11, 2005.

<sup>8</sup> In 2002, Euronext tookover London International Financial Futures and Options Exchange (LIFFE) in the derivatives segment.



remains the key focus of market places, their major business area- listing services- remained low on their competitive agenda for a long time. In recent years, international capital flow has catalyzed increasing number of cross-border listings and currently, attracting foreign issuers from other fast developing markets such as China and India remains a focus area on the business development program of major stock exchanges.

### **Disclosure, Accountability, Enforcement and Costs- Key issues in marketplaces**

Unless markets provide distinctly competitive advantage in terms of cost and ease of raising capital as compared to the respective domestic markets of local issuers, their drive to attract foreign issuers may remain a far cry. Thus a very clear signal is evolving that if marketplaces are to remain competitive, they need to be less expensive and less cumbersome in admission procedures and requirements. This leads us to question as to how expensive is 'less expensive' and to what extent admission requirements can be considered less cumbersome and what could possibly determine the cost and admission requirements of issuing companies. The major costs involved in fund raising are listing fees and the costs associated<sup>9</sup> with it such as accounting, legal, technical reports, preparation of business plan, marketing and distribution. Starting at one extreme end of no listing fees and voluntary disclosure requirements which may eliminate to a large extent the related costs, we can progress towards higher listing fees and more stringent disclosure requirements.

Assuming that the securities markets operate in a laissez-faire legal environment where the government does not impose any market discipline or prescribe any securities laws, the issuers of securities still have an incentive to disclose all available information simply because, failure to disclose would cause investors to assume the worst (Grossman 1981, Grossman and Hart 1980, Milgrom and Roberts 1986). Investors can rely on these disclosures when there are reputational, legal and contractual penalties for misreporting, verification of accuracy is costless, or reporting accuracy is backed by warranties. When verification is costly, issuers of "good" securities can resort to additional mechanisms to signal their quality (Ross 1979). For example, auditors and underwriters can credibly certify the quality of the securities being offered to safeguard their reputation and avoid liability under contract or tort law (Benston 1985, Chemmanur and Fulghieri 1994, De Long 1991). Similarly, private stock exchanges can mandate optimal disclosure and monitor compliance by listed firms to facilitate trading (Benston 1973, Fischel and Grossman 1984, Miller 1991). These market and general legal mechanisms suffice for securities markets to prosper. In this context, securities law is either irrelevant (to the extent that it codifies existing market arrangements or can be contracted around), or damaging, in so far as, it raises contracting costs and invites political interference in markets (Coase 1975, Macey 1994, Romano 2001).

On the other hand, 'law is the only thing that matters'. Security issuance is subject to the well known 'promoter's problem' (Mahoney 1995), the risk that corporate issuers sell

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<sup>9</sup> A sample survey of companies listed on TSX Venture Exchange conducted by us, shows that listing fees are around 10-15% of the total fund raising or going public costs on TSX Venture Exchange.

bad securities to the public- and as such is covered in all securities laws<sup>10</sup>. Reputations, contract, and tort law are insufficient to keep promoters from cheating investors because the payoff from cheating is too high and because private tort and contract litigation is too expensive and unpredictable to serve as a deterrent. To reduce the enforcement costs and opportunistic behavior, the government can introduce a securities law specifying the contracting framework<sup>11</sup>. Again, we may have a difference of opinion on what kind of government intervention such a framework would optimally call for.

According to some opinion, the government can standardize the private contracting framework to improve market discipline and private litigation. In the absence of such standardization, litigation is governed by contract and tort law, with grave uncertainty about outcomes because such matters such as intent and negligence need to be sorted out in Court (Easterbrook and Fischel 1984). We examine two aspects of standardization. First, the law can mandate disclosure of particular information, such as profitability and ownership structure, in the prospectus. Such mandates if followed make it easier for investors to value companies and therefore more willing to invest, and if violated create a prima facie liability of issuers or intermediaries. Second, the law can specify the liability standards facing issuers and intermediaries when investors seek to recover damages from companies that follow affirmative disclosure rules but fail to reveal potentially material information. By doing so, the law can reduce the uncertainties and the costs of private litigation, benefiting markets<sup>12</sup>.

According to some other opinion, even with a securities law describing the disclosure obligations of various parties and liability standards, private enforcement incentives are often insufficient to elicit honesty from issuers. A public enforcer, such as a Securities and Exchange Commission, is needed to support trade. Such an enforcer might be able to intervene *ex ante*, by clarifying legal obligations, or *ex post*, by imposing its own penalties or bringing lawsuits. Public enforcement might work because the enforcer is *independent and focused* and so can regulate markets free from political interference, because the enforcer can *introduce regulations of market participants*, because it can *secure information* from issuers and market participants, through subpoena, discovery, or other means, more effectively than private plaintiffs, or because it can *impose sanctions*<sup>13</sup>. Under the above conditions, the strength of public enforcement introduced by securities laws is most beneficial for the development of the market.

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<sup>10</sup> Teoh et al (1998) and Dechow et al (1996) present evidence consistent with the view that US firms manipulate accounting figures to raise capital on favorable terms. Leuz et al. (2003) show that earnings' manipulation is more extensive in countries with weak investor protection. Cited by La Porta et al. in 'What Works in Securities Laws?' p. 2

<sup>11</sup> See Landis (1938), Friend and Herman (1964), Coffee (1984, 1989, 2002), Simon (1989), Mahoney (1995), Fox (1999), Stulz (1999), Black (2001), Beny (2002), and Reese and Weisbach (2002).

<sup>12</sup> This view is developed in Black and Kraakman (1996), Hay, Shleifer and Vishny (1996), Hay and Shleifer (1998), Glaeser and Shleifer (2001, 2002), and Bergman and Nicolaievsky (2002).

<sup>13</sup> These themes are developed in Landis (1938), Becker (1968), Polinsky and Shavell (2000), Glaeser, Johnson and Shleifer (2001), Glaeser and Shleifer (2003), and Pistor and Xu (2002).

Let us focus on the agency problem between prospective investors in an initial public offering and the “promoter” who offers shares for sale. In modern days, this promoter is usually the owner or founder of a private company acting in concert with his distributors (or underwriters) and accountants to sell his company’s equity to the public (Mahoney 1995). The promoter’s problem is fraught with potential conflicts of interest: the promoter wants to sell the shares at the highest possible price while concealing bad information about the company and diverting its cash flows and assets to himself. Both the adverse selection and the moral hazard problems are severe, and if not addressed can severely undermine, possibly stop, fund-raising in the stock market.

However, Grossman and Hart (1980) show that with perfect law enforcement (i.e., automatic sanctions for not telling the truth), promoters have an incentive to reveal everything they know. The reason is that without such revelation, potential investors assume the absolute worst. Secondly, whether the circumstances of the company are better or conflicts of interest less severe, promoters have every reason to disclose them, and they cannot say anything more optimistic than the truth because of the automatic sanctions. Grossman and Hart also point out that, without perfect enforcement, these favorable results for the market solution do not hold. Thirdly, if there are no clearly defined responsibilities and automatic penalties for issuers and underwriters as required by Grossman and Hart (1980), enforcement of good conduct could be costly<sup>14</sup>, and hence we should not necessarily expect efficient outcomes from unregulated markets.

Thus securities laws require to be prescriptive so as to reduce the cost of contracting (prevention is better than cure) and bring in some basic discipline into the market and at the same time they should also be strongly enforcing, so as to resolve disputes and maintain orderly markets. This enforcement-based reasoning forms the analytical foundation of the case for securities laws. Market mechanisms and litigation supporting private contracting may be too expensive. Since investors, on an average, are not tricked (this is not an issue of market efficiency), they pay lower prices for the equity when they are unprotected, and the amount of equity issued is lower (Shleifer and Wolfenzon 2002, La Porta et al. 2002). Securities laws, in so far as they reduce the cost of contracting and resolving disputes, can encourage equity financing of firms and stock market development.

However, the decision of a marketplace to choose between the above two extreme ends may be contingent upon the ensuing regulatory framework, its enforcement capabilities,

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<sup>14</sup> Between 2000 and 2004, the US securities markets lost US\$ 5.55 trillion in market capitalization on account of disclosure and accounting related frauds by US issuers. Though the amount of market capitalization loss declined to US\$ 542 billion in 2003 and US\$ 705 billion in 2004 from a whopping US\$ 1.5 trillion in 2001 and US\$ 2 trillion in 2002, overall settlements as percentage of ‘estimated damages’ were significantly low at around 4% from 1997-2003 and only 2.1 % during 2004. Median settlement as percentage of estimated damages was higher at 4.5% where the SEC initiated an action as compared to 3.5% where no action was initiated by the SEC. Source: ‘2004: A Year in Review’ and ‘Post-Reform Act Securities Settlements’, Cornerstone Research.

its cost to the marketplace, as well as characteristics of the marketplace in terms of profile of prospective issuers, industry concentration<sup>15</sup>, investing community and their psychology, the reputation and integrity of financial intermediaries as well as political and economic dynamism in and around the marketplace. The level of all these elements is related to the maturity of such a marketplace. We need to find out some trade off between the two extremes, which is ideally suitable for a particular market. We believe that it all depends on the extent of sophistication of the subject market, its participants, corporate ownership structures and the regulatory environment encompassing public investment in securities.

## **LITERATURE REVIEW:**

### ***Investor protection and corporate finance:***

Growth of capital markets, in general, is strongly associated with investor protection. Recent research reveals<sup>16</sup> that a number of important differences of financial systems among countries are shaped by the extent of legal protection of outside investors from expropriation by the controlling shareholders or managers. The findings show that better legal protection of outside shareholders is associated with:

- (1) more valuable stock markets (La Porta et al. 1997);
- (2) a larger number of listed firms (La Porta et al. 1997);
- (3) larger listed firms in terms of their sales or assets (Kumar, Rajan, and Zingales 1999);
- (4) higher valuation of listed firms relative to their assets (Claessens et al. 1999, La Porta et al. 1999);
- (5) greater dividend payouts (La Porta et al. 2000);
- (6) lower concentration of ownership and control (European Corporate Governance Network 1997; La Porta, Lopez-de-Silanes and Shleifer 1999, Claessens et al. 2000);
- (7) lower private benefits of control (Zingales, 1994, Nenova 1999); and
- (8) higher correlation between investment opportunities and actual investments (Wurgler 2000).

While the understanding of the empirical differences in the patterns of corporate finance has advanced considerably, the theoretical work in this area is only beginning. A number of studies model explicitly the expropriation of minority shareholders by the controlling shareholders (see, among others, Grossman and Hart 1988, Harris and Raviv 1988, Hart 1995, Burkart, Gromb and Panunzi 1997, 1998, Friedman and Johnson 2000) and the legal framework underlining such expropriation (La Porta et al. 1998, Johnson, et al. 2000). Other studies attempt to explain theoretically why control is so concentrated in countries with poor shareholder protection (Zingales 1995, La Porta et al. 1999, Bebchuk 1999), and why such organizational forms as pyramids may be common (Wolfenzon 1999). Still other studies, such as Bennedsen and Wolfenzon (2000), argue that control

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<sup>15</sup> We believe, among other things, the closure of new markets in major EU countries in the middle of 2003, the higher tax incentives offered from 2004 to investors investing in AIM issuers as well as better industrial diversity of listed issuers on AIM, could have made AIM a more successful market as compared to TSX Venture Exchange. (For more details on AIM and TSX Venture Exchange market cap, trading volume and industry diversification, please refer to APPENDIX- F)

<sup>16</sup> Shleifer Andrei, Harvard University and Wolfenzon Daniel, University of Michigan 'Investor Protection and Equity Markets', draft, October 2, 2000, pp.1-2

structures with multiple large shareholders may be efficient in the environments with poor shareholder protection. La Porta et al. (1999) make the case for higher concentration of cash flow ownership (and not just control) in countries with poor shareholder protection.

Incorporating the elements of Becker's (1968) classic "crime and punishment" framework into a corporate finance environment of Jensen and Meckling (1976), a simple model developed by Shleifer and Wolfenzon<sup>17</sup> showed that when an entrepreneur tries to raise equity finance for a project and operates in an environment with limited legal protection of outside shareholders, he has an opportunity to divert some of the profits of the firm once they materialize (Burkart, Gromb, Panunzi 1998). By doing so, he risks being sued and fined for breaking the law or the shareholder agreement. The likelihood of the entrepreneur being caught and fined for expropriating shareholders depends on the quality of investor protection. In a simple model, Shleifer and Wolfenzon showed how the entrepreneur's decisions on the size of the project and the amount of cash flow to sell are shaped by the legal environment and can determine the size of the capital market.

In their study on 'Investor Protection and Corporate Governance'<sup>18</sup> La Porta et al say that investor protection turns out to be crucial because in many countries, expropriation of minority shareholders and creditors by the controlling shareholders is extensive. When outside investors finance firms, they face a risk, and sometimes near certainty that the returns on their investments will never materialize because the controlling shareholders or managers expropriate them. (We refer to both managers and controlling shareholders as "the insiders.") Corporate governance is to a large extent, a set of mechanisms through which outside investors protect themselves against expropriation by the insiders.

Expropriation can take on a variety of forms. In some instances, the insiders simply steal the profits. In other instances, the insiders sell the output, the assets, or the additional securities in the firm they control, to another firm they own, at below market prices. Such transfer pricing, asset stripping, and investor dilution, though often legal, have largely the same effect as theft. In still other instances, expropriation takes the form of diversion of corporate opportunities from the firm, installing possibly unqualified family members in managerial positions, or overpaying executives. In general, expropriation is related to the agency problem described by Jensen and Meckling (1976), who focus on the consumption of "perquisites" by managers and other types of empire building. It means that the insiders use the profits of the firm to benefit themselves rather than return the money to the outside investors.

Research by Grossman, Hart, and Moore, summarized in Hart (1995)<sup>19</sup>, makes a further key advance by focusing squarely on investor power vis-a-vis the insiders, and distinguishing between the contractual and residual control rights that investors have. In this framework, investors get cash only because they have power. This can be the power

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<sup>17</sup> Ibid, Shleifer and Wolfenzon

<sup>18</sup> La Porta Rafael, Lopez-de-Silanes Florencio and Vishny Robert (2000b), 'Investor Protection and Corporate Governance', *Journal of Financial Economics*, 58, pp.3-27.

<sup>19</sup> Ibid, 'Investor Protection and Corporate Governance'

to change directors, to force dividend payments, to stop a project or a scheme that benefits the insiders at the expense of outside investors, to sue directors and get compensation, or to liquidate the firm and receive the proceeds.

Legal protection of minority investors<sup>20</sup> makes the expropriation technology less efficient. In different jurisdictions, rules protecting investors come from different sources, including company, security, bankruptcy, takeover, and competition laws, and also from stock exchange regulations and accounting standards. Enforcement of laws is as crucial as their contents. In most countries, laws and regulations are enforced in part by market regulators, in part by courts, and in part by market participants themselves.

When investors are protected from expropriation<sup>21</sup>, they pay more for securities, making it more attractive for entrepreneurs to issue these securities. Shareholder rights encourage the development of equity markets, as measured by the valuation of firms, the number of listed firms (market breadth), and the rate at which firms go public. For both shareholders and creditors, protection includes not only the rights written into the laws and regulations but also the effectiveness of their enforcement. Consistent with these predictions, La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1997) show that countries which protect shareholders have more valuable stock markets, larger numbers of listed securities per capita, and a higher rate of IPO (initial public offering) activity than do the unprotective countries.

How does better protection of outside investors (both shareholders and creditors) promote financial market development?<sup>22</sup> When their rights are better protected by the law, outside investors are willing to pay more for financial assets such as equity and debt. They pay more because they recognize that with better legal protection, more of the firm's profits would come back to them as interest or dividends, as opposed to being expropriated by the entrepreneur who controls the firm. By limiting expropriation, the law raises the price that securities fetch in the marketplace. In turn, this enables more entrepreneurs to finance their investments externally, leading to the expansion of financial markets. The first such principle is that legal rules do matter<sup>23</sup>.

In both the contractual framework of Jensen and Meckling and the residual control rights framework of Grossman, Hart, and Moore, the rights of the investors are protected and sometimes even specified by the legal system. For example, contract law deals with privately negotiated arrangements, whereas company, bankruptcy, and securities laws specifically describe some of the rights of corporate insiders and outside investors. These laws, and the quality of their enforcement by the regulators and courts, are essential elements of corporate governance and finance (La Porta, Lopez-de-Silanes, Shleifer and Vishny 1997, 1998). When investor rights such as the voting rights of the shareholders and the reorganization and liquidation rights of the creditors are extensive and well

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<sup>20</sup> Ibid, 'Investor Protection and Corporate Governance'

<sup>21</sup> Ibid, 'Investor Protection and Corporate Governance'

<sup>22</sup> La Porta et al, 'Investor Protection and Corporate Valuation', *The Journal of Finance*, Vol. LVII, NO. 3, June 2002, p.1147

<sup>23</sup> Ibid, 'Investor Protection and Corporate Governance'

enforced by regulators or courts, investors are willing to finance firms. In contrast, when the legal system does not protect outside investors, corporate governance and external finance do not work well.

### ***Investor Protection and Equity Valuation***

Lombardo and Pagano<sup>24</sup> tested the efficiency of legal system and respect for law on a sample of 21 developed markets and 24 emerging markets and found out that “general” measures of the quality of institutions, like efficiency of the judicial system, respect for the law, lack of corruption among government officials, quality of accounting standards and low risk of contract repudiation and nationalization, have a positive correlation with the risk-adjusted return on equity, dividend yield and the earnings-price ratio. They put forward three arguments in the above context. First, more effective courts and higher respect for the law can reduce the amount of private benefits that the management can extract from corporate resources, thus allowing companies to credibly pledge higher returns to investors. Second, the legal environment determines the legal and auditing costs that shareholders must incur in order to secure residual income from their investments. For example, better accounting standards lower the cost of monitoring the company’s performance, by reducing the need to rely on expensive expert advice by accountants, lawyers and financial analysts. Similarly, the availability of class action suits and the possibility of voting by mail reduce the cost of shareholder activism.

Third, better institutions can have a positive effect on the profitability of companies, as a wider menu of contracts with the customers and suppliers can be cost effectively enforced, which in return, will increase the marginal productivity of investment. Both these types of effects would result in an increase in the amount of equity funding used by companies.

### ***Investor Protection and Globalization of Equity Markets***

In the context of globalization of equity markets, level of investor protection also plays a significant role in controlling the flow of investments and development of their stock markets. The findings of Lombardo and Pagano<sup>25</sup> quoted above suggest that fund managers and individual investors should stay away from countries with a poor legal environment and low corporate governance standards. To put it differently, there is an equity premium to good legal institutions. To the extent that investors are aware of such empirical regularity, international net equity flows should be directed to countries that are in the process of improving their legal and judicial systems. This also holds true for entrepreneurs, since what they fail to receive as private benefits due to improvement in legal and judicial systems, remains with the project and improves its valuation and thus they gain in the form of a higher initial price of equities to the investing public. Thus, payoffs to such improvements include not only a broader local stock market, but also one that is more closely integrated in world capital markets<sup>26</sup>.

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<sup>24</sup> Lombardo Davide and Pagano Marco, ‘Legal Determinants of Return on Equity’ 2000, Centre for Studies in Economics and Finance, Working Paper No. 24, p. 29

<sup>25</sup> Lombardo Davide and Pagano Marco, ‘Law and Equity Markets: A Simple Model’ 2002, Centre for Studies in Economics and Finance, Working Paper No. 24, p. 2

<sup>26</sup> The welfare and distributional consequences of a reduction in managerial diversion also differ relative to the case of perfect international integration. In an internationally segmented market where there is

### ***Disclosure Standards and Listing Choices in an International Context***

Huddart, Hughes and Brunnermeier<sup>27</sup> used a rational expectations model to examine how public disclosure requirements affect listing decisions by rent-seeking corporate insiders, and allocation decisions of liquidity traders who want to minimize trading costs. According to them, trading concentrates on high disclosure exchanges prompting exchanges to engage in a ‘race for the top’<sup>28</sup> in setting their disclosure requirements to maximize trading volume. This occurs because corporate insiders in control of listing decisions, willingly relinquish information advantage for greater disguise of their trades by following liquidity to exchanges where trading costs are lowest. They also argued that while trapped liquidity, such as tax incentives, etc. may explain listings on the low disclosure exchange, competition between exchanges, nonetheless results in a race for the top. Normally, higher disclosure standards are associated with higher going public costs, such as listing costs. Given the fact that insiders have an endowed position in their firms’ securities, they bear a portion of the cost of meeting higher disclosure standards. However, according to them, even if higher listing costs act as a deterrent on rent-seeking insiders, the liquidity effect dominates and in the absence of trapped liquidity, all firms list on the higher disclosure exchange. However, when liquidity is trapped by an exchange<sup>29</sup>, the proportion of firms cross listing increases in the liquidity trapped on the

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restricted pool of investors, they require a higher rate of return due to higher per capita risk borne by them. Thus such markets have an upward sloping supply curve. In such segmented situations, assume that there are two markets that have different expropriation level but are otherwise identical, the entrepreneurs who get funding in both the markets are worse off in the low expropriation market, because not only do they consume a lower amount of perks, but they also face a higher discount rate when selling their shares and therefore get a lower price for them. Entrepreneurs who are active only in the low expropriation market are clearly better off than their counterparts in the higher expropriation market. However, investors are unambiguously better off in the low expropriation market. Adapted to segmental market scenario such as CNQ, TSX Venture, TSX or Pink Sheets, OTCBB and NASDAQ in the US as against the international segmented equity market model proposed by Lombardo and Pagano, Ibid, p.12

<sup>27</sup> Huddart Steven, Hughes John S. (Duke University) and Brunnermeier Markus (London School of Economics), ‘ Disclosure Requirements and Stock Exchange Listing Choice in an International Context’ , 1998, p. 28

<sup>28</sup> Ibid, Securities and Exchange Commission was concerned that if stock exchanges are permitted to set their own disclosure standards, ‘ a race for the bottom’ would ensue such that exchanges would lower their standards to attract new listings from abroad, an issue debated with New York Stock Exchange (Bayless et al., 1996), p.1

<sup>29</sup> The taxation of capital gains has long been a driver of both entrepreneurship and venture capital markets as it provides an incentive effect. (Poterba, 1989) (Gompers and Lerner,1998) (Keuschnigg and Nielson, 2001) and Keuschnigg (2004). Investment vehicles with a favourable taxation ‘ Venture Capital Trust’ was introduced in 1995 in the UK and in 1997 in France. Companies admitted on AIM-London are treated as unlisted companies for tax purposes which provides a lot of tax advantages to both corporate and individual investors and a clear case of trapped liquidity. Income tax relief on Venture Capital Trust was raised from 20% to 40% for 2004-05 and 2005-06; under Enterprise Investment Scheme (EIS) annual income tax relief amount was raised to GBP 200,000, Individual and trustees can now avail taper relief of up to 75% for a 1-year holding of business assets. Source: LSE- A guide to AIM tax benefits.



low disclosure exchange. Thus, low disclosure exchanges may strive to attract firms through cross listing options under a trapped liquidity regime<sup>30</sup>, however, in the long run, or under optimal conditions, firms will always choose high disclosure standards to cross-list.

### ***Public Policy and Venture Capital Markets***

Nicodano, Sembenelli and Da Rin<sup>31</sup> in their study on European venture capital markets argued that channeling more funds<sup>32</sup> into venture capital markets, may create a ‘money chasing deals situation’ (see also Gomers and Lerner, 2000) rather than contributing to the creation of an active venture capital market. They found that policies such as creating stock markets targeting entrepreneurial companies, decrease in capital gain tax and a reduction in some barriers to entrepreneurship, particularly those related to labor regulations can have a significant positive impact on creating a vibrant venture capital market.

### **Scope of the present study**

We have reviewed listing practices prevalent in the TSX Main Market, TSX Venture Exchange, AIM-London, Australian Stock Exchange, NASDAQ Small Cap Market, NASD OTC Bulletin Board, Pink Sheets and CNQ. The sample in our study contains an integrated marketplace such as the Australian Stock Exchange, and 7 segmental marketplaces. We call the latter, segmental marketplaces as there are other markets in those countries which are either competing or supplementing the overall market space. Moreover, particularly, in the case of TSX Main Market and TSX Venture Exchange, we may encounter the problem of overlapping since TSX Venture Exchange evolved out of the merger of competing regional exchanges and was taken over by TSX Group. The sample is also heterogeneous as far as the overall regulatory structures of these markets are concerned as some of them are considered to be stock exchanges while others are not. Secondly, they have different regulatory mandates with regard to disclosure and other requirements and they address different segments of the market space. Thus we believe that our study will bring in enough diversity both within a region, such as North America, and across different countries. We intended to include the European Union markets<sup>33</sup> in our sample, however, since the public venture capital markets of these countries are going through a transitional phase due their integration into a pan-European stock market- Euronext, we expect more regulatory and harmonizing changes to take place in the immediate future. Therefore, we have excluded these markets from our study. However, wherever appropriate, we have tried to draw some inferences from the

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<sup>30</sup> AIM-London’s latest drive to attract cross listing through fast track method for firms listed on ‘qualified stock exchanges’

<sup>31</sup> Nicodano Giovanna, Sembenelli Alessandro and Da Rin Marco, ‘Public Policy and the Creation of Active Venture Capital Markets’, 2004, Turin University, Working Paper Series, No. 013, p.19

<sup>32</sup> such as the transformation of the European Investment Fund into Europe’s largest venture investor with an injection of more than 2 billion euros, making the increase in the supply of risk capital as European Commission’s priority(1998-2003) towards innovation and capital markets.

<sup>33</sup> Listing requirements of erstwhile EU venture capital markets and Euronext- Alternext have been presented in Appendix D.

erstwhile European new markets in Germany, France, etc. The most important aspect of our study is that markets in our sample have a common regulatory evolution or common legal origin from the British Common Law and our focus is on the efficiency and competitive sustainability of public venture markets from a listing perspective within an evolving regulatory framework as well as from a market standard perspective as a strategic business decision.

Both theoretical and empirical studies conducted during the past have come out with unanimous results in favor of higher disclosure standards for the growth and development of stock exchanges or marketplaces. However, the incidence of unscrupulous insiders and their associates taking the common investors for a ride is still rampant even in the world's most well regulated markets in the US<sup>34</sup>. Post demutualization, most of the marketplaces operate as for-profit organizations, obviously a question arises in their mind as to what listing standards should they adopt? Are they too stringent in their listing standards and losing out business opportunities? Or are they too lenient in their listing standards to the extent that they are risking the reputation of their marketplace? And finally, what should be the optimal listing standards? There may not be an easy answer to this. However, there is definitely a tradeoff at some level between losing business and losing reputation.

We hope our study will throw some light on whether TSX Venture should maintain a restricted market to maintain market quality or an expansive market and list all and sundry; in which areas could the TSX Venture derive some benefits from the process and practices adopted by other markets.

The study is divided into two sections- minimum listing requirements and continuous listing requirements.

## **Research Methodology**

We have compiled and analyzed both initial and continuous listing requirements of the sample marketplaces and have assigned them quantitative parametric values on a risk-based scale. We have also compiled the sample markets' performance indicators in terms of number of companies listed, market capitalization, market capitalization to GDP ratio, value of initial public offering to GDP, trading volume, ratio of trading volume to GDP, company survival rates, except in markets such as CNQ and Pink Sheets, where performance indicator data are either not available or they are too scanty to be included for any meaningful analytical purpose. We have also used some control parameters such as the ability of new and medium-sized firms to raise equity in the stock market based on Global Competitive Report, index of investor protection measures as an indicator to the level of private benefits of control, level of economic development and efficiency of the law enforcement agency from the International Country Risk Guide. Finally, we have used a regression model to assess the impact of listing requirements on the growth and

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<sup>34</sup> Between January 12 to July 26, 2005, [www.stockpetrol.com](http://www.stockpetrol.com) reported 35 investigative cases of fraud, misrepresentation and dubious schemes in the US and the Securities and Exchange Commission has initiated independent action in an equal number of cases.

development of the underlying market places from a low listing regime to a high listing regime. *(We have not been able to complete the analysis of the econometric model we intend to use and as such will not be able to present the results, mainly due to time constraints).*

### **Analysis of Minimum Listing Requirements (Appendix- A)**

The analysis of minimum listing requirements was conducted across various parameters based on the purpose of such requirements imposed by the various market places. These parameters broadly address sustainability, disclosure, maintaining a fair marketplace and revenue issues. Some of these parameters have regulatory mandates enshrined in them while some others are an extension of the regulatory mandates or practice requirements emanating from the operational, business and strategic objectives of the respective marketplaces. It is in the latter context, some marketplaces have additional listing requirements in order to maintain a certain level of quality and standard of listed issuers.

#### ***Minimum Financial Requirements:***

Exchanges and market places in our sample have varying degrees of minimum financial requirements across different criteria such as minimum capital, tangible assets, earnings or revenue, cash flow, working capital, cash, prior expenditure in patent or product or services development and human capital. Financial requirements are most crucial for the success of a business venture. It also serves the purpose of separating the wheat from the chaff, or maintaining some kind of quality standards since regulatory disclosure requirements per se do not have specific mandatory financial requirements.

#### ***Minimum capital requirement***

For example, the highest *minimum capital requirement* in our sample is ASX which requires AUD\$ 10 million in market capitalization, followed by NASDAQ Small Cap with US\$ 5 million, TSX Main CAD\$ 4 million (float capital)<sup>35</sup> and TSX Venture with CAD\$200,000, while none of the other exchanges or marketplaces including AIM-London have a minimum capital requirement. According to AIM-London, the exchange requires to know how much capital the issuer is planning to raise and the directors of the company should declare that the issuer will have available working capital to sustain business operations for at least 12 months from the date of admission.

#### ***Tangible assets requirement***

As far as *tangible assets requirement* is concerned, TSX Main Market has a net tangible assets requirements of CAD\$2 million of profitable industrial companies (CAD\$3 million for mining companies), ASX has net tangible assets requirement of AUD\$ 2 million, while TSX Venture has a minimum requirement of CAD \$ 500K. TSX Venture has higher tangible assets criteria of CAD\$ 5 million for category 2, Tier 1 technology or industrial issuers or Tier 1 real estate, investment or research and development issuer. CNQ, the other equity marketplace in Canada does not have a tangible assets requirement

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<sup>35</sup> TSX Main Market does not have a minimum capital requirement for oil & gas and mining companies, however, we expect the minimum float capital requirement of CAD\$ 4 million will proxy for some minimum capital requirement for oil & gas and mining companies.

per se but it requires holding companies to have majority control in investee companies with investment of CAD\$2 million with 50% of it being allocated between 2 specific investments or CAD\$4 million, and a track record of acquiring and divesting interests in arm's-length enterprise business. In the case of TSX Main, TSX Venture and CNQ, mining, oil & gas sector issuers do not have minimum tangible assets requirement though property ownership and exploration or development expenditure may be major criteria for them.

#### Earnings or revenue requirement

In the case of *earnings or revenue requirement*, NASDAQ Small Cap requires a net earnings of US\$ 750K in recent or last 2 out of 3 fiscals while, ASX uses an aggregate net earnings criteria of AUD\$ 1 million in last 3 fiscals, or AUD\$400K in the recent year. TSX Main Market stipulates a pre-tax earnings of CAD\$200K for profitable industrial companies and CAD\$300K for senior industrial companies and some pre-tax earnings for senior oil & gas and mining companies. For foreign issuers at least CAD\$ 2 million in average pre-tax profit in the last 3 fiscals. In all other cases earnings or revenue is not a criteria. TSX Venture, on the other hand, has no across-the-board earnings or revenue criteria for issuers from all sectors, though it has a minimum earnings or revenue requirement of CAD\$200K or CAD\$250K respectively, for technology or industrial issuers. All other markets including CNQ have no specific earnings or revenue requirement, though CNQ requires operating companies to have either revenue or liquid assets or a business plan to demonstrate a reasonable likelihood that the company can sustain its operations and achieve its objectives.

#### Working capital or cash requirements

As far as *working capital or cash requirements* are concerned, TSX Main Market stipulates that mining exploration and development stage companies should have working capital of at least CAD\$ 2 million and an appropriate capital structure, a planned expenditure program of at least CAD\$ 500K on a qualifying property or a planned exploration program of CAD\$750K and sufficient funds towards development expenditure and operating expenses for 18 months. It may consider lower working capital, if minimum work program is funded by a substantial industry partner. Technology companies should be able to fund all planned expenditure and operating expenses for 1 year, R&D companies for 2 year and oil and gas companies for 18 months ASX prescribes a higher working capital requirement of AUD\$1.5 million after including the first fiscal's budgeted revenue, and for mining issuers at least AUD\$1.5 million after taking into account administrative cost or cost of acquiring mining lease and equipment. TSX Venture has different working capital requirements for different industrial categories and different levels of issuers and further requirements of unallocated funds of CAD\$100K-500K, as well as different levels of recommended work program, from CAD\$200K-500K.

#### Patents/products or services development requirements

Some marketplaces, apply *patents/products or services development requirement* as another criteria to find out listing eligibility of prospective issuers. TSX Main Market expects technology companies to have products or services at an advanced stage of development or commercialization, and for research and development companies to have minimum 2 years of operating history with R&D expenditure. For oil and gas exploration and development companies it requires proved developed reserves of CAD\$ 3 million, and for mining companies advanced stage exploration property with technical report. TSX Venture has lower level of prior expenditure criteria but similar to that of TSX Main Market, though in the case of real estate issuers it stipulates that 50% of the funds must be allocated to at least 2 specific investments. AIM is satisfied with a business plan including forecasts and principal assumptions, as long as the nominating adviser (NOMAD) provides a due diligence report. Both Pink Sheets and CNQ, on the other hand, require declaration on amount spent on research and development activities during the last two years including that borne by customers.

#### Management and key personnel's expertise

*Management and key personnel's expertise* in a respective business field may be considered as another form of capital contribution (human capital) for listing consideration. However, most of the marketplaces either do not consider this as financial criteria, or do not have any specific valuation methods<sup>36</sup> for considering it as part of significant capital contribution.

#### ***Other Sustainability requirements:***

Minimum public float, underwriting and market making requirements are other key sustainability requirements which provide a market its required breadth and depth. In most of the countries, public float requirement emanates from corporate law applicable to public limited companies and corporations as well as from securities law governing public distribution and maintenance of a broad market place. However, it is also crucial for a marketplace to define its own set of requirements based on the minimum liquidity that it anticipates in an issuer's securities. It also becomes all the more important if it has market segmentations or competing markets.

#### Public float requirements

*Public float requirements* in the sample markets we reviewed for this study vary widely. Among all the markets, TSX Main Market has a requirement for 1 million freely tradable

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<sup>36</sup> Different valuation methods are available for valuing human capital contribution. For example, according to Knowledge Value Matrix Approach, Human Asset Value = Sum of an individual's current salary (s) times # of years spent with the issuer or in research or development (y) times present value factor (pv) [based on current federal reserve discount rate (surrogate for price inflation)] ( to reduce value to the present value of the future capital stream) plus certain additional criteria can be adopted. (For details methodology refer to Appendix E).

shares with total market cap of CAD\$4 million with at least 300 board lot public shareholders. Technology companies should have minimum market capitalization of CAD\$50 million and float market cap of CAD\$10 million. For foreign issuers, at least 1 million issued shares held by 3,000 public shareholders out of which at least 300 are residents of Canada, unless the applicant is listed on a major stock exchange. NASDAQ Small Cap has a requirement for 1 million shares and for continuous listing 500,000 shares and a market value requirement of US\$ 5 million and US\$ 1 million for continuous listing and minimum 300 shareholders holding at least 100 shares or more. ASX requires at least 500 shareholders each holding a value of AUD\$2,000 (excluding restricted securities) or 400 shareholders each holding a value of AUD\$2,000 where at least 25% of total outstanding ordinary shares are held by persons who are not related parties. Among the venture markets, AIM-London only stipulates that securities should be tradable whereas TSX Venture stipulates that at least 500,000 securities(1 million for tier 1) and the aggregate Market Value of the securities held by public shareholders is at least \$500,000 (\$ 1million for tier 1) or at least 200 public shareholders holding at least one board lot each with no resale restrictions; at least 20% of the issued and outstanding securities to be listed are held by public shareholders; at least 10% of the issued and outstanding securities to be listed are in the public float. CNQ has a very elaborate process for determining minimum public float requirement. Other markets do not specify anything on public float requirement.

#### Underwriting

*Underwriting* is another sustainability issue as it provides credibility as well as back-up against default to an issuer. However, since the methods of fund raising have changed over the last few years from a predetermined IPO/private placement pricing to book building or auctioning system, the importance of underwriting has become less significant.

#### Market making

*Market making*, as a requirement for listing is prevalent in some of our sample markets. NASDAQ Small Cap stipulates the requirement for 3 market makers at the time of initial listing and at least two for continuous listing, while AIM-London requires at least 1 market maker and a broker. ASX requires market maker for class 1 and 2 categories of issuers. NASD OTC Bulletin Board requires at least 2 market makers and Pink Sheets, at least one. The TSX Venture Exchange and CNQ in Canada do not specifically require market makers under their listing or trading rules and regulations, while TSX Main Market stipulates the appointment of at least one market maker.

#### ***Fair Marketplace requirements***

As far as listing or admission to a marketplace is concerned, there are five key criteria which fall under disclosure and meeting the requirements of a fair market place. The basic tenets of fair market requirements are

- a) disclosure of material information to all stakeholders and the general public as soon as such information is available to the control persons, management or other

- key employees associated with the company, so that people who have prior access to such information may not be able to take advantage of other unrelated investors;
- b) responsibility and accountability on the part of the control persons, management and senior officers of a company towards the veracity of information provided to unrelated investors and general public;
  - c) corporate governance measures such as majority independent directors, independent audit and management compensation committee to ensure that business decisions are not biased or designed in the interest of control persons or key management personnel;
  - d) third party or expert evaluation of company's assets or business wherever necessary including due diligence by sponsoring intermediary;
  - e) scrutiny of expertise, integrity and financial background of promoters or control persons, key management personnel and other major shareholders;
  - f) implementation and monitoring of 'escrow' or hold period on the holdings of control persons, key management personnel and other employees including benefits in terms of stock options, warrants granted to them.

Maintaining a fair marketplace is a growing area of concern both for securities regulators and marketplaces due to the occurrence of a number of corporate frauds, malpractices, accounting manipulations and expropriation methodologies adopted by company promoters, their management and other associates<sup>37</sup>. These are largely related to accounting manipulations or manipulation of material information such as contracts, insider trading, etc. Controlling shareholders may have shares with multiple voting rights to influence business decisions even if they hire professional managers or they may set up other companies, which deal with firms on non-market terms or derive indirect benefits. Sometimes there is collusion between the controlling shareholders and management. Most common expropriation methodologies adopted by controlling shareholders and key management are related to salary and compensation, transfer pricing, subsidized personal loans, non-arms length asset transactions, consulting fees and stock options.

Most of the securities regulators have recently prescribed stringent corporate governance measures and other measures to improve corporate and third party accountability, which have been subsequently adopted by marketplaces. However, as far as different segments of marketplaces, particularly the lower ends, are concerned, these measures have not been fully implemented, as they appear expensive for the issuers. Moreover, some markets do not fall under the category of stock exchanges and thus are not required under the securities law to implement such measures unless there is a change in the definition of a marketplace.

We reviewed the 'fair marketplace' practices adopted by different marketplaces in our sample.

### *Reviewing technical reports*

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<sup>37</sup> Ibid, refer to note 14

Both TSX Main Market and TSX Venture Exchange adopt the practice of *reviewing technical reports* related to mining and oil and gas issuers as required under the National Policy (Instrument 43-101 and 51-101, respectively). Since CNQ is another marketplace in Canada, it is also required to follow the National Policy directives. ASX also has a system of reviewing and vetting of technical reports according to the standards prescribed by JORC Codes or prescribed by other equivalent bodies. Pink Sheets may call for additional information if it is not satisfied with the disclosed information. AIM-London which previously did not have such a requirement will be required to review additional adapted reports in the case of specialist issuers such as mining, research and development, shipping and start-ups with less than 3-years in business, according to the new prospectus directive which became effective from July 1, 2005. NASDAQ Small Cap and NASD OTC Bulletin Board do not specify such requirement, though Rule 4-10 of Regulation S-X and Item 102, Item 914 of Regulation S-K of SEC defines reportable reserves and prescribes detailed accounting treatment and reporting requirements of such reserves and resources.

#### Standard disclosure requirements

As far as *standard disclosure requirements* such as filing of annual and interim financial reports, incorporation documents, title to property and assets, valuation, etc are concerned, we noticed that NASDAQ Small Cap or OTC Bulletin Board do not specifically require any of those documents as reporting issuers are required to comply with SEC' Rule 15c2-11 with regard to disclosure and these marketplaces depend on retrieving such information from a centralized corporate database filing system 'EDGAR'. However, since some of the Pink Sheets issuers do not fall under reporting issuers, Pink Sheets has a detailed list of disclosure requirements mostly adapted from SEC's Rule 15c2-11. TSX, TSX Venture Exchange and CNQ, on the other hand require issuers to submit all material documents, even though a centralized corporate database filing system 'SEDAR' is available in Canada. AIM-London also requires most of the documents to be submitted to a Regulatory Information Services agency such as its own LSE-RNS. ASX requires accounting reports and technical reports to be submitted but remains silent on the filing requirement of other supporting documents such as incorporation, title to property, etc.

#### Personal information of promoters and their associates including senior officers of companies

Marketplaces in our sample, such as TSX and TSX Venture require *personal information of promoters and their associates including senior officers of companies* who either have management control or direct or indirect ownership of 10% or more of voting rights. In addition to this, CNQ also requires such persons of another beneficial entity who directly or indirectly own more than 20% of voting rights of the beneficial entity/security holder. AIM-London requires personal information of any person who has a 3% or more interest in the securities of an issuer, directly or indirectly. Pink Sheets requires personal information of affiliates/associates such as lawyers, accountants, public relation consultants, investment bankers, directors, advisors who assisted in preparing the information with respect to the disclosure document. ASX requires directors and senior officers' interest in the controlling rights of the company to be disclosed but does not



require separate personal information form to be filed. While NASDAQ Small Cap and OTC Bulletin Board requirements regarding personal information are not specified, SEC Rule 13 d-1(a) and 13d-2(a) specifically requires personal information of persons having controlling stake or management control or their associates having more than 5% of voting rights to be filed. We understand that TSX and TSX Venture Exchange do an active background check on promoters and their associates while reviewing listing application of an issuer. According to TSX Venture Exchange, it is extremely important for maintaining the integrity of the market. The other marketplaces that require details of promoters, control persons and their associates are AIM-London and Pink Sheets, however, we don't have further information as to what extent they use this information.

*Classification of control persons' holdings as 'Restricted Securities' and maintaining a 'hold period' or 'escrow'*

*Classification of control persons' holdings as 'Restricted Securities' and maintaining a 'hold period' or 'escrow'* on their holdings are practices adopted by most of the marketplaces and their securities regulators. Escrow serves a dual purpose. On the brighter side, it ensures longer term involvement of promoters and key management personnel in the business growth of an issuer and in return provides them an opportunity to realize higher value for their holdings. On the darker side, it prevents common investors from unscrupulous fly-by-night promoters.

We observe that 'escrow' requirements vary among the different marketplaces in our sample. The spirit of 'escrow' is enshrined in the securities law. In the US, SEC<sup>38</sup> treats holdings of promoters and control persons as unregistered securities and as such stipulates an indefinite 'escrow' or 'hold' on them until such promoters and control persons apply for registration of such securities after the minimum hold period. These governing rules and regulations apply to NASDAQ Small Cap, OTC Bulletin Board as well as Pink Sheets issuers. In Canada, escrow policy is enshrined in National Policy 46-201 and the escrow provisions are being administered by TSX Main Market and TSX Venture Exchange, while CNQ does not provide for any implementation of 'escrow' or 'hold' period and it is very unclear whether CNQ issuers are treated as listed issuers for escrow purpose. AIM-London has an escrow requirement of one year. ASX, on the other hand, has an escrow requirement of two years for promoters and their associates including employees. It also applies an escrow period of one year for holdings by other investors who are not control persons or their associates. However, escrow relief is provided to profitable companies or companies with substantial tangible assets or non-controlling seed capitalists.

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<sup>38</sup> SEC Rule 144 and Section 13 or 15(d) apply to all registered securities in the US which stipulates release of 500 shares or equivalent to a value of \$10,000 in previous 3 months, restricted to 1 % of outstanding securities sold. Hold period is generally 2 years for all restricted securities which are listed on national exchanges or on NASDAQ, or 4 years if issued under Section 13 or 15(d) to get an exemption from volume restrictions, provided the issuer files periodic reports. In addition, a blank check company needs to deposit and escrow both funds raised and securities issued until a significant transaction (80% of funds) is concluded within a maximum period of 18 months. Issuer is allowed to withdraw only 10% of funds net of underwriting commission and other fund raising expenses. After 18 months, if transaction is not concluded, the fund will be returned to investors.

### Stock options/warrants or shares in lieu of cash compensations

We looked at various marketplaces' policies towards *stock options/warrants or shares in lieu of cash compensations*. ASX stipulates that outstanding stock options/warrants at any given time should not be more than the total outstanding securities of that class. It also stipulates that prior information is required by the exchange for the issue of any stock options/warrants. NASDAQ Small Cap also stipulates vetting of stock options/warrants issues, including shares in lieu of cash compensation (stock split/stock dividend or reverse split and other distributions in cash or in kind, while the OTC Bulletin Board and Pink Sheets do not have such specific requirements. In the US, there are restrictions on trading of securities which are not registered with the SEC, so to that extent, issue of stock options or warrants or other form of employee compensation plans may not require any kind of restrictions, as sale of such securities will not be permitted unless they are registered with the SEC.

The TSX Main Market permits only 10% of total outstanding securities which can be granted under stock options/warrants or shares in lieu of cash compensation plans and a maximum limit of 2% that can be granted to any single incumbent employee. Stock option plans may be accepted by the TSX without shareholders approval, however, no exercise of such options or rights can be allowed until shareholders approval is obtained. Stock option plans without a fixed maximum number of securities issuable should have approval of both majority directors and shareholders including unrelated directors and shareholders having disproportionate voting rights or holding restricted securities. Insiders if beneficiary of a stock option plan, will not be allowed to vote. TSX Venture follows a slightly different policy, though it requires majority shareholders' approval and disinterested shareholders' approval in this regard. It allows 20% and 10% of total outstanding securities under a fixed plan and rolling plan, respectively and limits issue of stock options/warrants to related parties such as consultants or investor relation providers to 2% of total outstanding. It also stipulates a 4-months hold period if the exercise price is based on discounted market price and the issuer is a Tier 2 issuer. AIM-London, on the other hand, does not stipulate anything with regard to issue of stock options/warrants.

### Pricing of an issue

*Pricing of an issue*, is another area where marketplaces may put some minimum criteria to set a standard for their markets as well as to reduce speculative activities. However, pricing of an issue should be more justifiably related to the valuation of an issuer. In case of most of the venture issuers, this may be a difficult task to achieve for the marketplace or any market intermediary.

Among the sample marketplaces we studied, TSX Venture stipulates a minimum issuance price of CAD\$0.05 per security and a minimum exercise price of CAD\$0.10 for warrants and incentive stock options. If it is a prospectus issue, the minimum pricing should not be less than CAD\$0.15 per share or unit. CNQ stipulates a minimum price of CAD\$0.05 per security. TSX Main Market, on the other hand, does not stipulate any minimum issuance price. ASX stipulates a minimum price of 20 cents both for issuance of shares and options, while NASDAQ Small Cap Market stipulates a minimum price of US\$ 4 per security. Though OTC Bulletin Board does not stipulate a minimum price, Pink Sheets

confers the responsibility on the broker-dealers to justify the entry price of a prospective security to be admitted for trading. AIM-London, on the other hand, does not stipulate a minimum price of a security for admission.

#### Implementation of corporate governance measures

*Implementation of corporate governance measures* such as appointment of independent directors, appointment of independent audit committee, compensation committee; internal control mechanism and management information system, senior officers' responsibilities and liabilities are other important criteria of maintaining a fair market place, which we reviewed in our sample marketplaces. We noticed that in the US, after the implementation of Section 302 and Section 906 Sarbanes Oxley Act by SEC, most of the registered issuers are required to follow disclosure and accountability standards set forth therein. However, markets such as Pink Sheets, OTC Bulletin Board though in principle encourage admitted issuers to adopt sound corporate governance policy, do not have mandatory requirement of appointment of independent directors as it is deemed expensive for smaller companies. The situation is similar in Canada at the lower end, as CNQ does not have a mandatory independent directors' requirement. The TSX Venture Exchange stipulates that Tier 2 companies should have at least one independent director and Tier 1 companies should have at least two independent directors as well as independent audit committee, while it does not stipulate appointment of independent audit committee as a requirement for Tier 2 companies. The TSX Main Market on the other hand, requires its issuers to have at least two independent directors and independent audit committee. The corporate and securities laws<sup>39</sup> across Canada are not uniform in this regard. For example, one independent director is required as per the Ontario Business Corporations Act, whereas two independent directors are required as per the Canada Business Corporations Act.

#### Third party accountability

*Third party accountability* is another major area of securities regulations which has been implemented across different marketplaces after the US witnessed a series of accounting and corporate scandals. Accountability of market intermediaries such as merchant bankers or sponsors or broker-dealers has always been there in most of the regulated market places. However, securities regulations have now become more and more

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<sup>39</sup> Securities Laws of the Canadian Provincial Securities Commissions are being harmonized with the setting up of Canadian Securities Administrators (CSA) at the national level, however, it still faces two major challenges- **(A) Regulatory burden** caused by: 1. Differences in regulatory requirements among jurisdictions, 2. Separate decision-making processes in each jurisdiction and 3. The volume and complexity of regulatory requirements; and **(B) Increased competition and innovation** as technology and market innovation are changing the traditional roles of exchanges, dealers, advisers and other intermediaries and their relationships to investors who are participating more actively in the market, in some cases bypassing these traditional distribution channels. So far, some differences have been narrowed down with the introduction of national instruments and decision-making through mutual responsiveness. CSA intends to bring in uniform securities legislation, regulatory reform and responsive regulation.

Source: Canadian Securities Administrators, Strategic Plan 2002-2005

enforcement oriented and are seeking changes in the judiciary enforcement mechanism and codes<sup>40</sup>, so that securities market violators get duly punished for their misdemeanors.

Almost all the markets in our sample require due diligence by sponsoring intermediaries and vetting of the prospectus or offering document by their respective regulatory authority. AIM-London earlier required due diligence by the nominated adviser (NOMAD), however, with the new Prospectus Directive<sup>41</sup> of European Union coming into force from July 1, 2005, now offering documents of AIM-London issuers will be required to be vetted by UK Listing Authority- FSA, though they may still be treated as unlisted securities for tax purposes. In the US, only issuers registered with SEC can be listed on NASDAQ, OTC Bulletin Board and even on the Pink Sheets, though there are some exempt issuers<sup>42</sup> who can also get admitted to the latter two markets. In Australia, the prospectus is vetted by the ASIC. In Canada, prospectus offerings by issuers on both TSX Main Market and TSX Venture Exchange are required to be vetted by their respective provincial commissions, though private placements and CPC offerings conducted on the latter are vetted by the exchange. CNQ, on the other hand, imposes the requirement for an additional independent opinion by an attorney that the issuer is in good standing and not in default of applicable corporate law.

#### Listing or admission fees

*Listing or admission fees* are another area that we looked into in our sample marketplaces, in order to assess the going public cost. However, listing or admission fees may constitute only 15-25% of the going public cost<sup>43</sup>, as associated costs such as incorporation and legal costs, preparation of business plan, auditing of accounts and last but not the least promotional or marketing costs are the majority cost components in going public. From a marketplace's perspective it is a sustainability and profitability issue as well and is often linked to the cost of maintaining a fair marketplace. The most important source of revenue for a sample of 50 stock exchanges in 2003 was from trading, accounting for 38% of total revenues. Services (including information dissemination, clearing and IT sales) ranked a close second, at 35%. When measured by market capitalization, the 10 largest exchanges account for approximately 64% of total listing fees. Annual and other listing fees represent the large majority of total listing fees. Initial fees for the top 10 exchanges represent only 40% of the initial fees across all

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<sup>40</sup> Market Regulation Services Inc, which conducts enforcement of equity trading regulations through its surveillance and investigation mechanism for all the exchanges throughout Canada has also implemented Universal Market Integrity Rules (UMIR) which major provincial securities commissions in Canada have accepted as governing trading on all Canadian equity markets. Source: NASAA Trading & Exchange Project Group, August 17, 2004, page 5.

Legislation has been proposed to create new offense of illegal insider trading under criminal code as the federal government has sole jurisdiction for criminal law. In addition, the Royal Canadian Mounted Police has set up integrated market enforcement teams across the country, which are working closely with Canadian provincial regulators as well as SROs like the IDA and RS. Source: NASAA Trading & Exchange Project Group, August 17, 2004, page 8.

<sup>41</sup> The Committee of European Securities Regulators (CESR)'s recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses no. 809/2004

<sup>42</sup> Section 12(g), Securities Exchange Act of 1934.

<sup>43</sup> Eversheds' 'Going Public' study shows that 89% of the admitted issuers on AIM believe the listing costs are good value for money.

exchanges. What stands out in this categorization is the significance of the TSX Group's "other" listing fees, which account for 41% of "other" listing fees across all exchanges. The TSX Group is among the top 10 exchanges by market capitalization, but does not rank equally either in terms of revenues or share trading value.<sup>44</sup>

In our sample marketplaces, we observed different methodologies adopted by them as far as initial and annual listing fees and other associated fees are concerned. TSX Main Market, TSX Venture Exchange and ASX all charge a minimum fee and a variable fee based on the market value of securities to be listed, whereas AIM-London and CNQ both charge a fixed fee irrespective of size of an issue. NASDAQ Small Cap, on the other hand, charges its initial and annual listing fees based on the number of securities issued. Marketplaces such as Pink Sheets and OTC Bulletin Board, on the other hand, are not treated as stock exchanges and as such they don't charge fees from the issuers. Pink Sheets in addition to its revenue from trading activities, provides an information dissemination service for admitted issuers for which it charge fees. Of the TSX Main Market and ASX, fees charged by the former are around 7% higher in general but large issuers with high market capitalization may get some benefits as it stipulates a maximum cap on listing fees, whereas ASX does not have such a maximum limit. TSX Venture Exchange's listing fees and other fees are almost 50% of the fees charged by TSX Main Market but they appear to be less than CNQ's flat rate of initial listing fees of CAD\$10,000 and annual listing fees of CAD\$3,600, for any issuer. Secondly, while TSX Venture charges other fees such as filing for some material document or events, and fees for the issuance of additional securities/warrants/stock options, CNQ does not charge any other fees except re-admission and activation fees.

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<sup>44</sup> World Federation of Exchanges Cost and Revenue Survey 2003

## **ANALYSIS OF CONTINUOUS LISTING REQUIREMENTS (Appendix- B)**

Marketplaces need to monitor listed issuers regularly as far as the various listing criteria are concerned. Some of the listing criteria are derived from the regulatory oversight role a marketplace undertakes based on the requirements and obligations under securities laws. These are related to disclosure standards, corporate governance measures and maintaining a fair and broad public marketplace.

We reviewed the various continuous listing criteria adopted by the different marketplaces in our sample. We have classified the various continuous listing requirements into five broad categories such as financial, corporate governance, disclosure, broad marketplace and insider trading.

### ***Financial Requirements***

Different marketplaces in our sample adopt different criteria as far as *financial requirements* are concerned. These criteria also vary across different types of issuers. For example, the TSX Main Market requires an industrial issuer to maintain total assets of at least CAD\$ 3 million and annual revenue of at least CAD\$ 3 million, however, it requires a research and development issuer to spend at least CAD\$ 1 million in research and development in the most recent year. In the case of a resources issuer, it stipulates that it should have carried out exploration and/or development work of at least CAD\$ 350,000 and generated a revenue of CAD\$ 3 million from the sale of resource-based commodities in the most recent year. In addition to the above, TSX also consider market capitalization another important criteria for continuous listing purposes. Accordingly, if market capitalization of issued securities falls below \$3 million or freely-tradable securities falls below \$2 million over any 30 consecutive trading days, it will send a notice to the issuer seeking an explanation or will take a closer look at the issuer's financial condition.

On a more comparable basis, ASX which has a similar market structure, stipulates no tangible assets or revenue requirements for established issuers but requires junior companies to keep less than 50% of their assets in cash (issuers who had 50% or more in cash at the time of listing) and to justify that during the previous two years' cash and cash equivalents have been utilized according to the planned expenditure program. It also requires companies to submit quarterly cash flow statements if at the time of listing, 50% or more of its assets were in cash or readily convertible into cash. For established issuers, ASX does not apply any quantified criteria but evaluates various financial condition such as composition of balance sheet, liabilities to assets ratio, access to funds and level of their operations to ascertain the eligibility of the issuer for continued listing. It does not consider market capitalization a major criterion.

TSX Venture follows more or less similar financial requirements for continuous listing purposes which stipulates net tangible assets of CAD\$ 2million for Tier 1 issuers and property or reserves worth CAD\$ 1 million with proven reserves of at least CAD\$ 500,000 for Tier 1 oil and gas issuers. It expects Tier 2 industrial and technology issuers to maintain net tangible assets of \$100,000 and real estate and investment, research & development issuers to maintain net tangible assets of \$250,000. It expects Tier 1

issuers to have adequate working capital for 12 months and Tier 2 issuers for six months or at least CAD\$ 50,000. It also expects Tier 1 issuers to have revenue of CAD\$ 1 million and capital expenditure of CAD\$ 200,000 for industrial and other Tier 1 issuers, or CAD\$50,000 in exploration/development for mining, oil and gas issuers.

NASDAQ Small Cap Market, on the other hand, requires net earnings of US\$ 500,000 in two out of the three last fiscals and/or minimum shareholders' equity of US\$ 2.5 million or a minimum market capitalization of US\$ 35 million for an issuer's continuous listing. All of these marketplaces consider substantial impairment to business or assets or insolvency a major financial criterion for discontinuation of listing. Marketplaces such as CNQ, OTC Bulletin Board and Pink Sheets do not have any specific financial criteria for continuous listing except bankruptcy.

### ***Corporate Governance***

*Corporate governance* measures such as management discussion and analysis of strategic planning process, principal business risks, succession planning, internal control and reporting system and communication policies towards beneficiary stakeholders, appointment of at least two independent directors, appointment of independent audit committee, appointment of directors by a nominee committee of independent directors, executive compensation committee and committee for compensation for directors including their appointment as advisers were major areas of corporate scam in the recent past. After WorldCom, Enron and many such debacles, Sarbanes-Oxley Act has now been implemented in order to make corporate actions more independent and accountable.

We review these major areas of concern with regard to our sample marketplaces. Corporate governance measures have been adopted by all TSX listed issuers and Tier 1 TSX Venture issuers. However, TSX Venture does not expect Tier 2 issuers to have independent audit committee and provide management discussion and analysis, though it expects them to have at least one independent director on the board. As a part of Tier maintenance review process, TSX Venture reviews these requirements periodically. NASDAQ Small Cap Market has also implemented these requirements, while ASX has implemented these requirements for index companies only, but expects to extend these requirements to other companies soon. AIM-London does not require issuers to practice corporate governance measures as a precondition for continuous listing as their securities are not considered as listed securities. However, as the new EU prospectus directive becomes applicable from July 1, 2005, it may be worth watching what stance the FSA takes with regard to this. Interestingly, Alternext started by Euronext from May 2005, also does not require corporate governance measures to be practiced by listed issuers. Most likely, it appears that implementation of corporate governance measures may get delayed in the European Union on account of delay in harmonization process of many participating markets. OTC Bulletin Board requires corporate governance practices such as management discussion and analysis and appointment of independent directors, however, it has not made appointment of independent audit committee mandatory for admitted issuers. Pink Sheets, on the other hand, requires its issuers to provide management discussion and analysis but does not ask for the appointment of independent audit committee or independent directors. Interestingly, CNQ, the other exchange in

Canada, relies on governing corporate law to take care of appointment of independent directors requirements, prescribe the requirement of independent audit Committee but remain silent on management discussion and analysis.

### ***Broad Marketplace***

Marketplaces are required to maintain certain level of liquidity and continuous public interest in listed or admitted securities. In some countries, corporate law deals with minimum shareholders or minimum number of outstanding shares requirements for widely-held public companies. In addition to the above, certain marketplaces require minimum market value, continuous market making and a certain minimum bid-ask spread to be maintained for each and every listed security.

In our sample marketplaces, both TSX and TSX Venture require listed issuers to maintain a minimum shareholding of 150 board lot shareholders. In addition to this, TSX requires listed issuers to maintain a minimum of 500,000 total outstanding shares and a market capitalization of freely tradable shares to be CAD\$ 2 million, whereas, TSX Venture requires its listed issuers to maintain a market capitalization of CAD\$ 100,000 for Tier 2 and CAD\$750,000 for Tier 1 levels. Bid-ask spread and compulsory market making are not mandatorily required for both TSX and TSX Venture listed issuers. CNQ, on the other hand, requires minimum outstanding securities of 500,000, market value of \$50,000 and 100 shareholders having board lots. AIM-London does not have any public float or bid-ask spread criteria mentioned above but requires admitted issuers to maintain at least one market maker, one broker and a nominated adviser (NOMAD) all the time. Similarly, ASX does not have any public float or market making criteria but requires issuers to maintain an acceptable level of bid-ask spread. NASDAQ Small Cap Market listed issuers are required to maintain at least 500,000 total outstanding shares, a market capitalization of US\$ 1 million, 300 public shareholders and two market makers. OTC Bulletin Board and Pink Sheets have no mandatory public float requirements but they require at least one market maker and one-sided or two-sided or solicitors or unpriced bids.

### ***Disclosure standard***

We looked at disclosure standards across the various markets in our sample. True, accurate and timely dissemination of material corporate information are the essence of a fair marketplace. All of the marketplaces in our sample ask issuers to adopt the basic tenets of corporate disclosure mentioned above. With SEC being strict with both listed and exempted issuers in terms of quality of information disseminated to the general public through media, the management of issuers are now responsible for clarifying unusual news which is considered price sensitive. TSX, TSX Venture and CNQ all have the policy of reviewing corporate information published in various media including the electronic filing system 'SEDAR'. NASDAQ, OTC Bulletin Board and Pink Sheets also continuously monitor corporate news broadcast including EDGAR that are in line with the public dissemination methods prescribed by SEC. In addition to the above, all the marketplaces in our sample require issuers to file material corporate information, notifications, circulars, etc. with them.



### ***Insider trading***

Insider trading is another major area of concern in securities market. Most of the markets in our sample follow universal market rules on insider trading and reporting practices imposed by the securities regulators. However, in addition to the above, the TSX and the TSX Venture markets have reporting requirements by any control person or groups of persons or any person or group of persons and their affiliates who hold more than 20% of voting rights. They also have set guidelines on employee trading practices.

## Summary and Recommendations

Preventive regulatory measures of marketplaces are going to be less expensive than curative measures. Recent regulatory developments call for higher disclosure standards and more and more corporate and third party accountability. At the same time, as we observed, marketplaces are going through a phase of intense competition and consolidation, particularly in the trading business arena, though their emphasis on increasing listing business is catching up more recently, particularly focusing on attracting business from fast developing countries like India and China. Competitive cost and ease of raising capital will attract foreign issuers to a particular market. As securities laws become more standardized and enforcement oriented, markets will become more disclosure-driven and the responsibility of maintaining a fair market place will gradually converge on the regulatory institutions and their network of compliance agencies. This will, in addition to the demutualization and change of business objectives of stock exchanges, help marketplaces to focus on business development and profit objectives. Government policy and tax incentives will act as catalysts in the growth and development of venture capital markets.

In our study we mainly focused on cost and ease of raising capital in public venture markets across a sample of eight markets. These markets are homogeneous in terms of their legal origin from British Common Law but heterogeneous in many other respects. Our analysis of various aspects of initial and continuous listing requirement practices adopted by the sample marketplaces under the ensuing regulatory and structural changes lead us to the following conclusions and recommendations:-

### Recommendations on Financial Requirements

It is obvious that every start up business venture requires certain amount of initial capital or assets capable of generating income. Some business ventures may have an excellent business plan of products or services or a break-through technology, which can be economically exploited. Some other business ventures may need huge initial capital to make an asset economically viable or develop products or services or technologies. It is in the latter case that it becomes extremely difficult to estimate how much capital a company may need, before it starts generating income from its business operations. Probably no one will have a definite answer to what could be the burn rate for a particular type of business or industry. To the extent that the insiders have invested some capital, either in physical form or in terms of human capital (the amount of money a person could have earned working elsewhere) in the business venture, shows their level of commitment to the proposed business venture. Some amount of subjectivity may go into deciding what could be the minimum amount in this regard. Working capital forms part of the overall capital requirements for the successful operation of a business and varies widely depending on the nature of business. Prior capital expenditure including investment in exploration or acquisition of properties forms part of the capital contribution. Some businesses can be highly capital-intensive requiring huge investments in fixed assets whereas some businesses may be volume driven requiring higher working capital. Moreover, investment in fixed capital and working capital may vary depending

on the life of business of an issuer. On the other hand, revenue, cash flow or earnings will indicate business continuation or performance of the prospective issuer.

As we mentioned before, financial requirements beyond the perspective of stipulated regulatory disclosure requirements allow marketplaces to set their own quality standards and are related to the sustainability issue of the issuer as well as the marketplace. As long as an issuer does not have previous track record of profitable business operations, it may fall under the category of a venture issuer. Thus, marketplaces can be classified into two distinct categories- markets for established issuers and markets for venture issuers. Listing criteria based on the above two broad categories will be more representative of a marketplace. Revenue or earnings rather than minimum capital should be a criteria for established issuers, whereas minimum capital, working capital, prior expenditure including work program, a viable business plan, expertise of key personnel, etc should be more appropriate criteria for a venture issuer.

This issue has immediate implications for the TSX Group as its two markets have overlapping areas, and streamlining listing requirements will provide its markets strategic focus, reduce their costs and improve their efficiency. It may be more rational to maintain TSX Main Market as a market for established issuers with revenue or profitability track record and shift various development or exploration stage companies to TSX Venture, irrespective of the size of their capital or market capitalization. TSX Venture also runs a Capital Pool Company (CPC) program similar to the Blank Check Company program in the US (Rule 419, Regulation C), whose primary aim is to provide a step-in advantage of fund raising prospects and visibility to a company which may or may not have a business idea. TSX Venture has also started a separate board 'NEX' to provide a convalescence ground to CPC issuers or other issuers which either fail to complete a qualified transaction within the stipulated 18-month period or which do not meet the tier requirement or continuous listing requirement criteria. As of June 30, 2005, TSX Venture has only 300 Tier 1 companies with a total market capitalization of CAD\$ 9.35 billion whereas it has 1671 Tier 2 companies with a total market capitalization of CAD\$ 18.35 billion. There is a clear and obvious overlapping of TSX Main Market listing requirement and TSX Venture Exchange's Tier1 listing requirements, and moving companies which are in development or exploration stage (which do not meet the revenue or earnings or cash flow criteria) will provide more vigor to TSX Venture Exchange's Tier 1 segment. Moreover, TSX Venture Exchange should consider shifting CPC listings to NEX and set disclosure-driven listing requirements for NEX in addition to its role as a convalescence ground to counter growing threat from disclosure-driven markets such as CNQ. This may help TSX Group to strategically position itself in a possibly evolving scenario where markets are expected to be more disclosure driven with the supervisory body taking over additional market regulations and enforcement responsibilities.

In light of our review of prevalent listing practices, trend in regulatory and disclosure related developments and development in market structures in other major marketplaces and countries, the following recommendations may be implemented by the TSX Group as far as minimum financial criteria for listing requirements are considered:-

1. For the TSX Main Market- a single financial based criteria for listing requirement such as a three years' business track record of profitability of CAD\$ 500,000 in net earnings in the preceding year or in at least two out of the last three financial years. This may be implemented across all industry sectors/business types
2. TSX Venture Market-
  - a) Tier 1- Total shareholders' equity or total net assets of CAD\$ 2 million, a maximum of 35% of which may be in the form of human/intellectual capital (patents/rights) or research or development expenditure in the past years or 50% of which may be in the form of fixed assets such as plant and machinery or real estate or resource properties of income generating capabilities. In the case of both mining and oil and gas companies, the fixed assets criteria may be relaxed to 50% rights to revenue of any mining or oil and gas properties. In the case of investment or holding companies at least 80% of the assets must be in diversified income generating investments. In addition to the above, all the issuers should have minimum working capital of 30% of total assets or at least CAD\$ 600,000. In the case of real estate and investment or holding companies, a 10% working capital requirement may be deemed sufficient. In addition to the above, technical reports from industry experts/investment strategy highlighting risk diversification and business plan may be called for with due diligence from the sponsoring intermediary.
  - b) Tier 2- All issuers that do not meet Tier 1 requirements but have minimum shareholders' equity or net assets of at least CAD\$ 500,000 with sufficient working capital to continue business operations for at least 1 year. In the case of mining, oil and gas companies having 50% ownership rights or revenue rights in potential income generating properties may be an additional condition with technical report from an industry expert. Sponsor's due diligence report will be required in the case of all issuers.
  - c) NEX- All CPC issuers and companies having a viable business plan with minimum shareholders' equity or net assets of CAD\$ 200,000. In this case, a sponsor's due diligence may not be called for, but may be encouraged. NEX will also continue to shelter issuers moved down from both TSX Main Market and from TSX Venture's Tier 1 and Tier 2 markets.

In addition to the above, a centralized listing processing services may be introduced, along with a common business development program.

### Recommendations on Public Float Requirements

There are three distinctive criteria under public float requirements, such as percentage of total public holdings, minimum number of public shareholders and minimum market value of public holdings. Mostly the first two minimum public float criteria are stipulated by corporate and securities law and the respective market may accept the standard prescribed by the laws or may need to set a higher standard such as minimum market value, depending on the maturity of their markets. In this regard, TSX Group may adopt the following public float requirements for its different markets:-

1. TSX Main Market- at least 10% of total issued and outstanding securities of a particular class and 300 minimum public shareholders holding a board lot with a total market capitalization of CAD\$ 2 million.
2. TSX Venture Market-
  - a) For both Tier 1 & Tier 2- at least 10% of total issued and outstanding securities of a particular class and 150 minimum public shareholders holding a board lot. Minimum market capitalization may not be necessary for Tier 1 and Tier 2 companies.
  - b) For NEX- at least 10% of total issued and outstanding securities of a particular class and 50 minimum public shareholders holding a board lot. The latter may require a change or an exemption grant from the applicable securities and corporate laws. Minimum market capitalization may not be necessary for NEX companies.

### Underwriting

None of the markets in our sample stipulate underwriting as a requirement for listing. This may be reasonable for a senior market for established companies, however, underwriting in some form or the other may be necessary for junior or venture markets. We suggest that TSX Group may prescribe underwriting as an additional requirement for its Tier 1 and Tier 2 listing but not for NEX.

### Market making

Market making is a very important aspect of creating and maintaining continuous quote in a particular security. It is also important in a sense, since a market maker is required to provide two way quotes, it has to maintain certain amount of inventory and as such assume some risk and responsibility. Market makers add value to an issuer in terms of guaranteeing to provide for a secondary market. However, market makers may also need higher market surveillance and regulations as they are in a position to manipulate the price of a security and as such require to file regular trade reports. It is also advisable to encourage unrelated broker-dealers to assume market making roles, so that there is no conflict of interest among the various roles they play in supporting/marketing an issuer's securities, while at the same time they broaden<sup>45</sup> the marketability of its securities.

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<sup>45</sup>Analysis of going public transactions on TSX Venture Exchange shows that brokered financing accounted for 82% of the going public transactions during 2004. However, most these transactions are concentrated in a few hands such as Canaccord in Vancouver and First Associates in Calgary. Source:

Market making is not necessary for senior established companies, as their securities will automatically attract investors. However, for a venture market, requirement for at least two market makers may be highly desirable.

In view of the above, TSX Venture Exchange may introduce the requirement of at least two market makers both for Tier 1 and Tier 2 issuers. CPCs and NEX listed issuers may not be suitable for market-making activities either on account of their lower public distribution status or poor financial conditions, respectively.

#### Review of technical report

The TSX and TSX Venture's practice of reviewing technical reports of mining and oil & gas issuers is in line with national objectives and policy.

#### Standard Disclosure Requirements

As far as standard disclosure requirements are concerned, TSX Venture may adopt the services of TSX Main Market's 'SecureFile'<sup>46</sup> online routine filing system for routine as well as filings of stock open and normal course issuer bids.

#### Personal Information of control person(s) and majority holders

Since the Canadian Depository for Securities Limited also operates a System for Electronic Disclosure by Insiders (SEDI)<sup>47</sup>, which manages a database of all corporate insiders and their transactions, the TSX Group should find out a way to complement the insider information gathered by SEDI as well as use the former's services for background checks of control persons, senior officers and associates of an issuer.

#### Escrow holdings

Interestingly, none of the sample marketplaces has a phased release of 'escrow holdings' as evidenced with TSX and TSX Venture listed issuers<sup>48</sup> and we believe it is a better method of allowing release of restricted securities into the market without significantly impacting liquidity.

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TSX Venture Exchange Internal Report. Introduction of market making by non-participating organizations will certainly increase participation from the brokerage community.

<sup>46</sup> Please refer to the filing guidelines of 'SecureFile' on TSX website.

<sup>47</sup> SEDI provides various reports on insiders such as insider transaction details which focus on active insider transactions, all insiders' information by issuer, with their name and summary of holdings as well as major events of issuers such as mergers, acquisitions, takeovers, etc. For more details visit: [www.sedi.ca](http://www.sedi.ca).

<sup>48</sup> For TSX Main Market, 'principals' of issuers will have their escrow securities released over a 18-month period in a phased manner, 25% upon listing and 25% after every 6 months' period. Escrow exemption is granted to senior industrial, oil & gas and mining companies who meet the following requirements: net tangible assets of CAD\$7.5 million, pre-tax cash flow of CAD\$700K in the previous fiscal or an average pre-tax cash flow of CAD\$500K during the last two fiscals. Senior industrial companies need to satisfy an additional profitability requirement of pre-tax earnings of CAD\$300K before any extraordinary items in the previous fiscal. TSX Venture Exchange follows a similar policy for established issuers whereas for 'principals' of emerging issuers escrow restriction is extended over a period of 3 years and is being released in the following manner- 10% after listing and 15% after each 6 months period.

### Stock options/warrants or shares in lieu of cash compensations

As we noted before, issue of stock options/warrants or any kind of such benefits to employees, particularly, senior officers of a company is an area where expropriation can take place. Secondly, it also has an impact on equity dilution of existing shareholders and liquidity in the market. It may look appropriate not to have additional restrictions on stock options/warrants by marketplaces, since corporate law deals with issuance of securities of any kind and requires majority shareholders approval where existing shareholders' rights or entitlements are infringed. However, from the perspective of a fair market place, there are still concerns on fair corporate governance and enforcement of corporate laws. Secondly, law enforcement may be expensive and marketplaces should provide some preventive measures in this regard and also should have some provisions to restrict liquidity which is not granted across the board. However, TSX Venture may consider allowing grant of higher stock options which are based on the financial performance of an issuer.

### Pricing of an issue

Lower pricing of issues may help in broadening the shareholders base and diversify risk and as such it may be advantageous for a marketplace to set a lower pricing limit. However, there is no definitive answer as to what could be an acceptable lower minimum price for the issue of a security. This may, among other things such as valuation, relate to the profile of investing community and their risk propensity and a desirable volatility that a marketplace deems appropriate.

### Corporate governance and accountability

Globally, this is an area where emergence of corporate governance, new accountability measures and regulatory convergence are taking place. In the US, most of Sarbanes Oxley Act has been implemented. In Europe, the EU has come out with both prospectus and market directives, which will harmonize fund raising and trading regulations across the European Union and the UK. In developing countries, such as India where capital markets have made huge strides<sup>49</sup>, corporate governance measures and accountability standards have already been put in place<sup>50</sup>. Canada will not be an exception to this development, as the CSA is working on uniform securities market regulations. As far as the TSX Group is concerned, its current policy with regard to corporate governance and third party accountability appear to be suitable. This is an area where the responsibility for maintaining a 'fair market place' will largely rest with the market regulatory authority. Law enforcement may still remain a major area of concern for some of the markets, as the judiciary is still not geared up to take on additional responsibilities. However, it may soon become inevitable to have a separate securities market enforcement agency such as a 'Securities Markets Tribunal' to handle securities market related cases expeditiously.

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<sup>49</sup> The Indian stock markets have second largest number of listed companies and second largest number of transactions. Source: World Federation of Stock Exchanges 2004

<sup>50</sup> Securities and Exchange Board of India's guidelines on corporate governance and accountability

### Listing fees and related costs

Flat rate of fees hurts smaller companies but they are advantageous to larger companies. Similarly, a diminishing rate of fees based on market capitalization or number of issued shares is also advantageous to larger companies but at the same time as the minimum prescribed fees are lower, they take care of smaller companies as well. The biggest controversy in the area of listing fees is whether fees should be charged based on market capitalization or number of outstanding shares. I believe a stock exchange by providing a trading place to an issuer, helps in enhancing its valuation, so listing fees should be based on market capitalization. NASDAQ Small Cap can afford to have listing fees based on number of shares outstanding as it stipulates a minimum bid price of US\$ 4 for any security offering which provides for higher trading revenue. I think, TSX Group's listed issuer services fees are reasonable, but it may have to revise them downwards if competition grows further. It may also consider lowering these fees with the improvement in regulation costs. Moreover, as marketplaces strive for higher trading volumes and compete with each other, they need to lower listing fees in order to attract more issuers.

## **Continuous Listing Requirements**

### Financial Requirements

Marketplaces aim to maintain high standards and track the growth and direction of the market and thus need to evaluate listed issuers' performance. This may help them to be more adaptive to the changing dynamism of marketplaces, maintain market integrity and maximize shareholders value.

It is our opinion that both performance and market capitalization based financial criteria are more dynamic in assessing listing continuity of an issuer and will be appropriate for established issuers of TSX Main Market. For junior companies listed on the TSX and TSX Venture, sufficient working capital, expenditure according to work program and submission of quarterly cash flow statements may be more appropriate criteria for continuous listing. We also suggest that TSX Venture may decide to increase its minimum working capital and work program requirements for junior companies, particularly in mining, oil and gas sectors as these numbers appear to be very low. It may also ask all listed issuers to submit quarterly cash flow statements.

### Corporate governance and accountability

As we discussed before under minimum listing requirements, this is an area where implementation of good governance practices by issuers has been either waived or delayed, particularly with respect to small junior companies. Marketplaces catering to the lower end, have argued that such measures are expensive for small junior companies. However, only time will tell whether preventive measures are more expensive than the cure. In our opinion, any issuer which intends to raise public money has an obligation towards non-participating investors to enforce good governance practices, even if ultimately such measures cost them money. The current trend shows that securities regulators will progressively enforce this area.



Broad marketplace

It is extremely difficult to ascertain what could be the appropriate public float requirements for TSX and TSX Venture. I assume that minimum number of outstanding securities and minimum public shareholders with board lot are stipulated by the corporate law. We may suggest that, in addition to the current practices, TSX Venture should ask issuers to implement market making at least for the initial 3 years, except CPCs.

Disclosure standards

We believe current disclosure standards adopted by TSX and TSX Venture are efficient and in line with national policy objectives. TSX provides listed issuers an online filing system 'SecureFile' free of charges which takes care of most of the routine filings with the exchange and also periodic filing of stock option grants, normal course issuer bids and private placements. We suggest that TSX Venture can take advantage of the existing system and technology available within the group to provide online filing system to its issuers. We would also like to suggest that the TSX Group switch to XBRL (eXtensive Business Reporting Language) which is an interactive language, so that information provided by listed issuers can be analyzed for various strategic business decision purposes. It could also recommend that SEDAR switches to XBRL.

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**A COMPARISON OF MINIMUM LISTING REQUIREMENTS-  
TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, NASD BULLETIN BOARD, PINK SHEETS AND CNQ**

**APPENDIX-A**

| <b>SUSTAINABILITY (WEIGHTING 8/10) AND DISCLOSURE (WEIGHTING 2/10)</b> |   |   |  |  |  |                                     |
|--|---|---|--|--|--|-------------------------------------|
| <b>Name of the Exchange or Market Place</b>                            | <b>Capital requirement:</b>   | <b>Tangible Assets requirement:</b>   | <b>Earnings or Revenue Requirement:</b>  | <b>Cash flow requirement:</b>  | <b>Working capital requirement:</b>  | <b>Cash requirement:</b>            |
| <b>TSX MAIN</b>  | Minimum CAD\$ 10 million in treasury for Technology and CAD\$ 12 million in treasury for R&D companies. While minimum capital requirement is not a criteria for oil and gas and mining companies. The general public distribution criteria which stipulates CAD\$ 4 million float capital can proxy for some minimum capital requirement for oil & gas and mining companies | Minimum CAD\$2 million for profitable industrial companies and CAD\$3 million for mining companies. For senior category industrial and mining CAD\$7.5 million. While for all other categories including oil and gas tangible assets requirement is not a criteria. Mining companies should have 50% ownership or a right to earn 50% ownership in a qualifying property. For foreign issuers, at least CAD\$ 10 million. | Pre-tax earnings of CAD\$200K for profitable industrial companies and CAD\$300K for senior industrial companies and some pre-tax earnings for senior oil & gas and mining companies. For foreign issuers at least CAD\$ 2 million in average pre-tax profit in the last 3 fiscals. All other cases it is not a criteria  | Proxy for earnings or revenue requirement. For profitable industrial companies, minimum pre-tax cash flow of CAD\$ 500K in last fiscal while for senior industrial, oil & gas and mining companies CAD\$700K and average cash flow of CAD\$500K for the last 2 fiscals. For other categories, not a required criteria. | Mining exploration and development stage companies should have working capital of at least CAD\$ 2 million and an appropriate capital structure, a planned expenditure program of at least CAD\$ 500K on a qualifying property or a planned exploration program of CAD\$750K and sufficient funds towards development expenditure and operating expenses for 18 months. Lower working capital may be considered if minimum work program is funded by a substantial industry partner. For others no quantitative minimum requirement, technology companies should be able to fund all planned expenditure and operating expenses for 1 year, R&D companies for 2 year and oil and gas companies for 18 months   | Not required                        |
| <b>TSX VENTURE EXCHANGE</b>  | In the case of a prospectus offering, the offering should raise minimum net amount of \$200,000 to the issuer's treasury.   | Two levels of listing (Tier 1 and 2) and requirements vary across different industry segments, in the range of nil (category 3, tier 1 technology or industrial issuer) to \$ 5 million (category 2, tier 1 technology or industrial issuer or tier 1 Real Estate Investment or Research and Development Issuer).   | Not required in the case of oil and gas, mining, research & development, real estate or investment issuers. In the case of technology or industrial issuer Nil for Category 3, Tier 2 technology or industrial issuer to \$ 200,000 pre-tax earnings for Category 3 Tier 1 technology or industrial issuer. or operating revenue of \$250,000 in the case of Category 2 Tier 2 technology or industrial issuer.. | Nil  | In the case of Tier 2 issuer adequate working capital for 12 months operating expenses (real estate or investment issuer) to 12 months adequate working capital plus \$100,000 unallocated funds. Tier 1 issuer adequate working capital for 18 months operating expenses (real estate or investment issuer) to an additional requirement of \$100,000 unallocated funds, except in the case of Oil and Gas issuer at least \$500,000. Further, in Tier 1 issuer case, working capital should be adequate to carry on business plan or maintain properties in good standing. In addition to working capital requirement, issuers need to have recommended work program in some cases:- \$200,000 for Tier 2 mining issuer (\$500,000 for Tier 1 mining issuer); \$300,000 for category 2, Tier 2 mining issuer; \$1.5 million for category 3 Tier 2 category 3 mining issuer (for Tier 1 not required). In the case of Research & Development Issuer, for Tier 2 it is \$500,000 and for Tier 1 it is \$1 million. | Minimum \$100,000 unallocated funds |
| <b>AIM-LONDON</b>  | Nil, however, the exchange requires to know how much capital the company is planning to raise following admission   | Nil   | Nil  | Nil  | No prescribed minimum requirement, however, the directors should declare that available working capital is sufficient for at least 12 months from the date of admission  | Nil                                 |

**A COMPARISON OF MINIMUM LISTING REQUIREMENTS-  
TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, NASD BULLETIN BOARD, PINK SHEETS AND CNQ**

**APPENDIX-A**

| Name of the Exchange or Market Place | SUSTAINABILITY (WEIGHTING 8/10) AND DISCLOSURE (WEIGHTING 2/10)  |  |   |                        |   |                   |
|--------------------------------------|--|--|---|------------------------|---|-------------------|
|                                      | Capital requirement:   | Tangible Assets requirement:   | Earnings or Revenue Requirement:  | Cash flow requirement: | Working capital requirement:  | Cash requirement: |
| AUSTRALIAN STOCK EXCHANGE            | Market Capitalization of AUD\$ 10 million  | Net Tangible Asset of AUD\$ 2 million after deducting fund raising costs and either less than 50% of that is in cash or in assets readily convertible into cash or more than 50% of that is in cash or readily convertible into cash with a definite expenditure program. Substantial acquisition (5% of equity or more), related party(10% or more voting rights) transaction | Aggregate profit during the last 3 financial years should be AUD\$ 1 million. The issuer should provide last 3 years audited accounts with audited/reviewed proforma accounts for the past 6 months or more if the last financial year ended before 8 months of filing application. OR the issuer's last 12 months consolidated profit (not more than 2 months prior to filing) should be more than AUD\$ 400,000 | Nil                    | Must be AUD\$ 1.5 million or at least AUD\$ 1.5 million after including first financial year's budgeted revenue (for mining company it should be at least AUD\$ 1.5 million after taking into account administrative cost and cost of acquiring mining lease and equipment. | Nil               |
| NASDAQ SMALL CAP                     | \$5 million in Shareholders' equity or \$50 million in market value of listed securities for continuous listing \$ 2.5 million or \$35 million | Nil  | Net Earnings of \$750K in recent fiscal or in 2 out of 3 last fiscals.  | Nil                    | Nil   | Nil               |
| NASD OTC BULLETIN BOARD              | Nil  | Nil  | Nil   | Nil                    | Nil   | Nil               |

**A COMPARISON OF MINIMUM LISTING REQUIREMENTS-  
TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, NASD BULLETIN BOARD, PINK SHEETS AND CNQ**

**APPENDIX-A**

| <b>SUSTAINABILITY (WEIGHTING 8/10) AND DISCLOSURE (WEIGHTING 2/10)</b> |                             |   |  |                               |   |                          |
|--|-----------------------------|---|--|-------------------------------|---|--------------------------|
| <b>Name of the Exchange or Market Place</b>                            | <b>Capital requirement:</b> | <b>Tangible Assets requirement:</b>   | <b>Earnings or Revenue Requirement:</b>          | <b>Cash flow requirement:</b> | <b>Working capital requirement:</b>   | <b>Cash requirement:</b> |
| <b>PINK SHEETS</b>   | Nil                         | Nil   | Nil  | Nil                           | Nil   | Nil                      |
| <b>CNQ</b>   | Nil                         | Nil, however, operating companies must have revenue or liquid assets or a business plan to demonstrate a reasonable likelihood that the company can sustain its operations and achieve its objectives. Early developmental stage company should have demonstrated achievement that will further their scope of raising additional capital, such as, in the case of mineral resources company, it should have title to prospective mineral property, independently evaluated according to the requirements of National Instrument 43-101. If it does not have a title to the property, it should have the means and ability to earn a significant interest in the property upon completion of a fully financed exploration program. Similar conditions apply to an energy resource company and it should provide a qualifying report in fulfillment of National Policy 2B(National Instrument 51-101). Investment companies must have an appropriate balance between income and activity depending on the nature of their investments. Holding companies that are not active in the management of investee companies should own majority interests or have effective control in b<br>(i) \$2 million, at least 50% of which has been allocated to at least 2 specific investments, or<br>(ii) \$4 million,<br>and a track record of acquiring and divesting interests in arm's-length enterprise business. | Nil, see previous column for operating companies | Nil                           | Cash generating capacity or an existing listed (within previous 6 months) company with any Canadian stock exchange with a minimum working capital of \$50,000 or a minimum working capital of \$100,000 | Nil                      |

**A COMPARISON OF MINIMUM LISTING REQUIREMENTS-  
TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, NASD BULLETIN BOARD, PINK SHEETS AND CNQ**

| Name of the Exchange or Market Place | Patents/products or services development requirement (commencement of project implementation/ commencement of business):   | Management and Board of Directors-Educational qualifications, Experience and Expertise in respective fields, personal and financial credibility/integrity:   | SUSTAINABILITY  |              |   |
|--------------------------------------|--|--|---|--------------|---|
|                                      |  |  | Public float requirement:   | Underwriting | Market Making   |
| TSX MAIN                             | In case of technology companies, product and services at an advanced stage of development or commercialization with relevant management expertise and resources to develop the business. For R&D companies minimum 2 years of operating history with R&D expenditure. For oil and gas exploration and development companies proved developed reserve of CAD\$ 3 million and for mining companies advanced stage exploration property with technical report (NI 43-101 requirements)  | All senior officers, directors and holders of more than 10% securities with voting rights should provide personal information form. They should have experience and technical expertise in relevant business and knowledge of Canadian capital markets and public company experience.  | 1 million freely tradable shares with total market cap of CAD\$4 million with at least 300 board lot public shareholders. Technology companies should have minimum market capitalization of CAD\$50 million and float market cap of CAD\$10 million. For foreign issuers, at least 1 million issued shares held by 3,000 public shareholders out of which at least 300 are residents of Canada, unless the applicant is listed on a major stock exchange.                                 | Not required | 1 Market Maker or 'Designated Trader'   |
| TSX VENTURE EXCHANGE                 | Nil to prior expenditure of \$100,000 in last 3 years for Tier 2 mining issuer or \$250,000 for Category 3, Tier 2 technology or industrial issuer or \$500,000 for research and development issuer. In the case of Tier 1 companies not required, except minimum \$1 million for a technology or industrial issuer. In the case of technology or industrial issuer, reasonable likelihood of revenue in next 24 months or commercial viability of products/services. In the case of real estate issuer 50% of funds must be allocated to at least 2 specific investments, investment issuer must have a disclosed investment policy and strategy. | Generally required to file personal information form resume and other relevant information in order to help the exchange to check the credibility of directors, senior officers of the issuer, their business background, qualifications and experience in managing public companies and securities industry past financial records, criminal record if any during the last 10 years.  | At least 500,000 securities(1 million for tier 1) and the aggregate Market Value of the securities held by Public shareholders is at least \$500,000 (\$ 1million for tier 1) and at least 200 Public Shareholders holding at least one Board Lot each with no Resale Restrictions and at least 20% of the issued and outstanding securities to be listed are held by Public Shareholders and at least 10% of the issued and outstanding securities to be listed are in the Public Float. | Not required | Not required  |
| AIM-LONDON                           | Business Plan including forecasts/projections, principal assumptions or Investment Strategy in case of an investment company, certified by the company's directors with due diligence from the NOMAD.  | There is no minimum requirement. However, details of personal, professional and financial credentials including name of associated organizations are to be disclosed. It is also required that any associate of the company other than professional advisers who have an agreement to receive GBP 10,000 or more in cash or equivalent securities before or after admission. The name of any director or family member who has a financial product related to the company' securities has to be disclosed. | Does not have a minimum requirement, securities should be tradable  | No           | Yes, is a must for AIM listed companies. In addition to Market Maker, it also needs to have a Broker. |

**A COMPARISON OF MINIMUM LISTING REQUIREMENTS-  
TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, NASD BULLETIN BOARD, PINK SHEETS AND CNQ**

| Name of the Exchange or Market Place | Patents/products or services development requirement (commencement of project implementation/ commencement of business): | Management and Board of Directors- Educational qualifications, Experience and Expertise in respective fields, personal and financial credibility/integrity: | SUSTAINABILITY   |                                      |   |
|--------------------------------------|--|---|--|--------------------------------------|---|
|                                      |  |   | Public float requirement:  | Underwriting                         | Market Making   |
| AUSTRALIAN STOCK EXCHANGE            | Not prescribed   | Not prescribed  | 500 shareholders each holding a value of AUD\$2,000 (excluding restricted securities) or 400 shareholders each holding a value of AUD\$2,000 where at least 25% of total outstanding ordinary shares are held by persons who are not related party. These conditions do not consider restricted securities and should also satisfying the condition that no artificial spread( through free shares, offering non-recourse loan to subscribe to shares or through nominee companies/names.) is created to achieve it. | Is prevalent but not required by ASX | Not required, but for class 1 and 2 category required                             |
| NASDAQ SMALL CAP                     | Not prescribed   | Not prescribed  | 1 million shares, for continuous listing 500K shares (excluding 10% or more being held by control persons), for ADRs at least 100,000 shares issued. Market value of public float \$ 5 million, for continuous listing \$ 1 million. Minimum shareholders 300, for continuous listing also 300 holding at least 100 shares (round lot) or more.  | Not required                         | Initially 3, for continuous listing 2, an ECN is not considered as a market maker |
| NASD OTC BULLETIN BOARD              | Not prescribed   | Not prescribed  | Not prescribed   | Not required                         | At least 2  |

**A COMPARISON OF MINIMUM LISTING REQUIREMENTS-  
TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, NASD BULLETIN BOARD, PINK SHEETS AND CNQ**

| Name of the Exchange or Market Place | Patents/products or services development requirement (commencement of project implementation/ commencement of business):  | Management and Board of Directors- Educational qualifications, Experience and Expertise in respective fields, personal and financial credibility/integrity:  | SUSTAINABILITY  |              |               |
|--------------------------------------|---|--|---|--------------|---------------|
|                                      |   |  | Public float requirement:   | Underwriting | Market Making |
| PINK SHEETS                          | Requires to declare an estimate of amount spent during each of the last two fiscal years on research and development activities, including if borne directly by customers. Costs and effects of compliance with environmental laws.           | Not prescribed   | Not prescribed  | Not required | At least 1    |
| CNQ                                  | An issuer requires to declare an estimate of amount spent during each of the last two fiscal years on research and development activities, including if borne directly by customers. Costs and effects of compliance with environmental laws. | CNQ will not approve an issuer for quotation, If any related persons or investor relations persons associated with the issuer has been convicted of fraud or integrity of conduct of business or entered into a settlement agreement with a securities regulator or known to be associated with other offenders or have a consistent record of business failures in public companies domain or any other persons who may be threat to investor protection or integrity of the market place. Should have one or two designated Posting Officer who will take care of all filing requirements. The issuer should have high speed internet connections. | At least 500,000 freely-tradeable shares worth at least \$50,000 consisting of at least 150 public shareholders each holding at least a board lot. At least 10% of total issued and outstanding securities or at least 5% of total and outstanding securities with at least 200 public shareholders each holding at least a board lot. Public shareholders will mean any shareholder other than a related person, an employee or a related person of another CNQ issuer or any person or group of persons acting jointly or in concert holding 5% of the security or any other convertible or exchangeable security which upon conversion will amount to 5% of the security under reference. CNQ allows quotation of a security under 'thin float issuer' with a identifying marker added to its stock symbol using the following formula: Target % freely tradeable shares = 35 - (0.05 x actual number of public holders of at least a board lot). Moreover, CNQ may designate any issuer as 'thin float' issuer if its shareholders distribution profile | Not required | Not required. |

**A COMPARISON OF MINIMUM LISTING REQUIREMENTS-  
TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, NASD BULLETIN BOARD, PINK SHEETS AND CNQ**

| DISCLOSURE                           |   |   |                               |   |  |
|--------------------------------------|---|---|-------------------------------|---|--|
| Name of the Exchange or Market Place | Vetting of Technical reports by independent technical bodies such as geological reports for mining, oil & gas issuers:  | Audited annual accounts along with auditor's comfort letter   | Years in business requirement | Personal Information Form of Promoters/Directors, employees or other associates/affiliates who are control persons or will have more than 10% or % holdings after the listing.  | Submission of material documents such as incorporation, property/assets, valuation or technical report   |
| TSX MAIN                             | Yes, in compliance with National Instrument 43-101 or National Policy 2B (National Instrument 51-101)   | Yes, required in case of existing operating companies.  | Not required                  | Yes, for all holding more than 10%  | Yes required. An online 'Securefile' system is provided by TSX to the issuers at no extra cost for most of the regular filings as well as for filing of private placements, stock option plans, normal course issuer bids. |
| TSX VENTURE EXCHANGE                 | Yes, in compliance with National Instrument 43-101 or National Policy 2B (National Instrument 51-101)   | Yes, required in case of existing operating companies.  | Not required                  | Yes. Filing of Personal Information Form is required for each director, senior officer, related person (holding more than 10%) of the issuer or such persons of another beneficial entity who directly or indirectly own more than 10% of voting rights of the beneficial entity/security holder. Indebtedness of directors and executive officers to the issuer should also be disclosed.  | Yes required   |
| AIM-LONDON                           | Not required by the exchange. However, under the new prospectus directive of the CESR effective from 1st July 2005 (Rule 5.1 and the Prospectus Rules 23), an issuer classified as Specialists Issuers such as mining, research and development, shipping and start-ups with less than 3-years in business would be required to furnish further adapted information such as expert's report, etc. | Financial accounts of year ending not more than previous 9 months according to UK or US GAAP or IAS. Yes 3 copies | Not required                  | The control persons' threshold of 10% is not required, but the company needs to disclose details of the directors and also details of any person who has a 3% or more interest in the securities of the company, directly or indirectly. According to the new Prospectus Rules, the issuer needs to disclose if more than 10% of capital has been paid for with assets other than cash within the period covered by the historical financial information. | Requires appointment of a Regulatory Information Services such as LSE' RNS for material and regulatory notifications.  |



**A COMPARISON OF MINIMUM LISTING REQUIREMENTS-  
TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, NASD BULLETIN BOARD, PINK SHEETS AND CNQ**

| Name of the Exchange or Market Place | DISCLOSURE   |   |  |  |  |
|--------------------------------------|--|---|--|--|--|
|                                      | Vetting of Technical reports by independent technical bodies such as geological reports for mining, oil & gas issuers: | Audited annual accounts along with auditor's comfort letter | Years in business requirement  | Personal Information Form of Promoters/Directors, employees or other associates/affiliates who are control persons or will have more than 10% or % holdings after the listing. | Submission of material documents such as incorporation, property/assets, valuation or technical report |
| AUSTRALIAN STOCK EXCHANGE            | Yes, Reports/Documents pertaining to mining and hydrocarbon resources and reserves according to JORC Codes.            | Yes, for the last 3 years                                   | The issuer must be in business (in the same business) for the last 3 years.  | Detailed information not required or prescribed  | Not prescribed   |
| NASDAQ SMALL CAP                     | Not prescribed   | Not required  | 1 Year (The operating history/market value of listed securities requirement is not applicable to non-Canadian foreign securities). | Not required   | Not prescribed   |
| NASD OTC BULLETIN BOARD              | Not prescribed   | Not required  | Not required   | Not required   | Not prescribed   |

**A COMPARISON OF MINIMUM LISTING REQUIREMENTS-  
TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, NASD BULLETIN BOARD, PINK SHEETS AND CNQ**

| DISCLOSURE                           |  |   |   |  |  |
|--------------------------------------|--|---|---|--|--|
| Name of the Exchange or Market Place | Vetting of Technical reports by independent technical bodies such as geological reports for mining, oil & gas issuers: | Audited annual accounts along with auditor's comfort letter   | Years in business requirement   | Personal Information Form of Promoters/Directors, employees or other associates/affiliates who are control persons or will have more than 10% or % holdings after the listing.   | Submission of material documents such as incorporation, property/assets, valuation or technical report                   |
| PINK SHEETS                          | If disclosed information by an issuer are not sufficient.  | Not required  | Yes, complete business plan, including business development, capital raised during the last 3 years, bankruptcy, mergers, acquisitions, etc. need to be declared under Rule 15c2-11 | Yes. The list also includes affiliates/associates such as lawyers, accountants, Public Relation Consultants, Investment Bankers, Directors, advisors who assisted in preparing the information with respect to the disclosure document.  | Pink Sheets issuers have a very exhaustive disclosure requirement under Rule 15c2-11 of Securities Exchange Act of 1934. |
| CNQ                                  | National Instrument 43-101 or National Policy 2B applies   | Audited annual accounts along with auditor's comfort letter are required along with Management's Discussion and Analysis. MD&A should cover key indicators of business operations, outlook and risk factors. Financial forecast or projections should be prepared according to NP Statement 48. | Not required  | Yes. Filing of Personal Information Form is required for each director, senior officer, related person (holding more than 10%) of the issuer or such persons of another beneficial entity who directly or indirectly own more than 20% of voting rights of the beneficial entity/security holder. Indebtedness of directors and executive officers to the issuer should also be disclosed. | Yes, existing companies need to provide details of last 3 years business development.                                    |

**A COMPARISON OF MINIMUM LISTING REQUIREMENTS-  
TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, NASD BULLETIN BOARD, PINK SHEETS AND CNQ**

| FAIR MARKET PLACE                    |  |  |  |   |   |
|--------------------------------------|--|--|--|---|---|
| Name of the Exchange or Market Place | Trade Restrictions on promoters' (insiders/control persons) shares, i.e., hold period, escrow account  | Sponsorship or vetting by registered investment banker and other market intermediaries   | Promoters/Senior officers certification towards responsibility regarding disclosures and veracity of information | Independent Directors and Corporate Governance requirements   | Restrictions on or Vetting of Management contract, compensation to senior officers/management |
| TSX MAIN                             | Principals of issuers will have their escrow securities released over a 18-month period in a phased manner, 25% upon listing and 25% after every 6 months period. Escrow exemption is granted to senior industrial, oil & gas and mining companies who meet the following requirements: net tangible assets of CAD\$7.5 million, pre-tax cash flow of CAD\$700K in the previous fiscal or an average pre-tax cash flow of CAD\$500K during the last two fiscals. Senior industrial companies need to satisfy an additional profitability requirement of pre-tax earnings of CAD\$300K before any extraordinary items in the previous fiscal. | Sponsorship is required and a sponsor is required to provide comment on financial forecast, management's expertise and experience and their visit to property sites of business locations.   | Yes, required, including certification on financial projections.   | Yes, 2 independent directors required by the exchange as well as under applicable corporate and securities laws. In addition to it, an issuer needs to have audit committee consisting of majority independent directors. Executive compensation agreements/mat   | Yes required to be disclosed and filed.   |
| TSX VENTURE EXCHANGE                 | Principals of established issuers will have their escrow securities released from escrow over a 18-month period in a manner as mentioned under TSX MAIN. Principals of emerging issuers will have their escrow securities released over a three-year period, 10% after listing and 15% after each 6 months period.   | Sponsor is required in most cases including his due diligence report and in the case of IPO, the sponsor is required to certify the prospectus.  | Yes, required  | Yes, 2 independent directors required by the exchange as well as under applicable corporate and securities laws. In addition to it, an issuer needs to have audit committee consisting of majority independent directors. Executive compensation agreements/matters are either vetted by disinterested shareholders or an independent compensation committee and filed for exchange's prior acceptance. Tier 1 issuers must submit corporate governance procedure and practices report in the information circular or along with the financial reports. Tier 2 issuers are encouraged to prepare and follow appropriate corporate governance procedure and practices and inform the shareholders accordingly. | Yes required to be disclosed and filed.   |
| AIM-LONDON                           | 1 year from the date of admission  | Vetting is a must. A company seeking admission to AIM must retain a nominated adviser (NOMAD) at all times, even after admission. If an AIM company ceases to have a nominated adviser, the exchange will suspend trading in its securities and if within 1 month of suspension the company fails to appoint a NOMAD, admission of securities for trading will be cancelled. | Yes, required  | Not prescribed  | Not required by the exchange  |

**A COMPARISON OF MINIMUM LISTING REQUIREMENTS-  
TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, NASD BULLETIN BOARD, PINK SHEETS AND CNQ**

| FAIR MARKET PLACE                    |   |  |  |  |  |
|--------------------------------------|---|--|--|--|--|
| Name of the Exchange or Market Place | Trade Restrictions on promoters' (insiders/control persons) shares, i.e., hold period, escrow account   | Sponsorship or vetting by registered investment banker and other market intermediaries   | Promoters/Senior officers certification towards responsibility regarding disclosures and veracity of information   | Independent Directors and Corporate Governance requirements  | Restrictions on or Vetting of Management contract, compensation to senior officers/management  |
| AUSTRALIAN STOCK EXCHANGE            | Escrow on restricted shares for 24 months applies to seed capitalists, vendors of classified assets, promoters, professionals and consultants and persons under an employee incentive scheme as well as for debt conversion on a cash formula basis, which implies shares in excess of cash value holdings based on the subsequent IPO price. For other investors who are not insiders/control persons or an associate and vendor of a substantial acquisition, the escrow period is 12 months. <b>There is no pooling or phased release of escrow shares.</b> Escrow does not apply to issuer who qualifies the profit test or profitability track record or has substantial tangible assets and also to the securities held by seed capitalists who are not directly involved (member of the executive board) in the operations and management of the issuer if the issue price is at least 80% of the public offer price.* | Not required by the exchange. ASX requires a prospectus offering to be filed with the ASIC, unless the latter is satisfied with an information memorandum. | All directors certification that the company will continue to earn profit from operations following the listing of its securities.   | Not prescribed   | Not required, however, under corporate governance rules, index companies need to meet the audit and compensation committee requirements  |
| NASDAQ SMALL CAP                     | Not prescribed by exchange. SEC Rule 144 applies. If you're a company affiliate, your stock is always considered control stock and is always subject to most of the Rule 144 restrictions. That's true no matter how you acquired it, or how much time has passed even if it's registered stock that you bought in the public market. Otherwise, 500 shares or \$10,000 in previous 3 months, restricted to 1 % of outstanding securities sold. Hold period is generally for 2 year for all restricted securities which are listed on national exchanges or on NASDAQ or 4 year if issued under Section 13 or 15(d) to get an exemption from volume restrictions, provided the issuer files periodic reports.   | Not required.  | Not prescribed   | Corporate Governance requirement is a must both for initial and continuous listing (among the areas NASDAQ corporate governance requirements address are: Distribution of Annual and Interim Reports, Solicitation of Proxies, Independent Directors, Conflicts of Interest, Audit Committees, Shareholder Approval, Shareholder Meetings, Stockholder Voting Rights, Quorum, Code of Conduct) | Yes, restrictions on or vetting of management contract, compensation to senior officers/management (The establishment of, or a material amendment to, a stock option plan, purchase plan or other equity compensation arrangements, pursuant to which stock may be acquired by officers, directors, employees, or consultants unless shareholder approval has been obtained); For issue of securities resulting in potential change in control, Issuing any common stock (or security convertible into common stock) in connection with the acquisition of the stock or assets of another company, if any officer or director or substantial shareholder of the issuer has a 5% or greater interest (or if such persons collectively have a 10% or greater interest) in the company to be acquired or in the considerations to be paid; Entering into a transaction that may result in the potential issuance of common stock (or securities convertible into common stock) greater than 10% of either the TSO or the voting power outstanding on a pre-transaction basis. |
| NASD OTC BULLETIN BOARD              | Not prescribed by exchange. SEC Rule 144 applies. 500 shares or \$10,000 in previous 3 months, restricted to 1 % of outstanding securities sold. Hold period is generally for 2 year for all restricted securities which are listed on national exchanges or on NASDAQ or 4 year if issued under Section 13 or 15(d) to get an exemption from volume restrictions, provided the issuer files periodic reports. In addition, a blank check company need to deposit and escrow both fund raised and securities issued until a significant transaction (80% of funds) is concluded within a maximum period of 18 months. Issuer is allowed to withdraw only 10% of funds net of underwriting commission and other fund raising expenses. After 18 months, if transaction is not concluded, the fund will be returned to investors.   | Not required   | Yes, most of the clauses of Section 302 and Section 906 of Sarbanes Oxley Act are now applicable and issuers not fulfilling these requirements will be considered delinquent and will be removed from the traded listed after 30-60 days grace period. | Not prescribed   | Not prescribed   |

**A COMPARISON OF MINIMUM LISTING REQUIREMENTS-  
TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, NASD BULLETIN BOARD, PINK SHEETS AND CNQ**

| FAIR MARKET PLACE                    |  |  |  |  |  |
|--------------------------------------|--|--|--|--|--|
| Name of the Exchange or Market Place | Trade Restrictions on promoters' (insiders/control persons) shares, i.e., hold period, escrow account  | Sponsorship or vetting by registered investment banker and other market intermediaries   | Promoters/Senior officers certification towards responsibility regarding disclosures and veracity of information | Independent Directors and Corporate Governance requirements  | Restrictions on or Vetting of Management contract, compensation to senior officers/management  |
| <b>PINK SHEETS</b>                   | Not prescribed by exchange. SEC Rule 144 applies, 500 shares or \$10,000 in previous 3 months, restricted to 1% of outstanding securities sold. Hold period is generally for 2 year for all restricted securities which are listed on national exchanges or on NASDAQ or 4 year if issued under Section 13 or 15(d) to get an exemption from volume restrictions, provided the issuer files periodic reports. In addition, a blank check company need to deposit and escrow both fund raised and securities issued until a significant transaction (80% of funds) is concluded within a maximum period of 18 months. Issuer is allowed to withdraw only 10% of funds net of underwriting commission and other fund raising expenses. After 18 months, if transaction is not concluded, the fund will be returned to investors. | Since Pink Sheet is a broker/dealers market place, issuers need to comply with Rule 15c2-11 disclosure requirements  | Yes, most of the clauses of Section 302 and Section 906 of Sarbanes Oxley Act are now applicable.                | Not prescribed   | Not prescribed   |
| <b>CNQ</b>                           | Not prescribed   | Opinion of an attorney that the issuer is in good standing and not in default of applicable corporate law; is a reporting issuer or equivalent and is not in default of any requirement under any jurisdiction; has the corporate power and capacity to own properties and assets and to carry on business and to perform its obligations there under, has taken all necessary corporate action to execute, deliver and perform the Quotation agreement; that all the issued and outstanding securities issued or will be issued, converted, exchanged are fully paid and non-assessable, a certificate from the government authority that the issuer is in good standing under applicable corporate law, a certificate of the appropriate commission that the issuer is a reporting issuer. | Not prescribed   | Not required by CNQ as some issuers may be too small but issuer should comply with applicable corporate law. One independent director as per Business Corporations Act (Ontario) or 2 independent directors as per Canada Business Corporations Act. CNQ strongly encourages issuers to comply with CSA regarding audit committee requirement of majority independent directors chaired by independent director. | Not prescribed, but may be required under applicable corporate law, such as declaration in Form 40 of Regulation 1015 of the Revised Regulations of Ontario. |

**A COMPARISON OF MINIMUM LISTING REQUIREMENTS-  
TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, NASD BULLETIN BOARD, PINK SHEETS AND CNQ**

| Name of the Exchange or Market Place | Restrictions on, or Vetting of stock options/warrants/shares in lieu of cash compensation  | Pricing of Issue   | COST  |  |   |
|--------------------------------------|--|--|---|--|---|
|                                      |  |  | Initial Listing fees  | Annual Listing Fees  | Other listing fees or fees for vetting material information/continuous disclosure documents   |
| TSX MAIN                             | Stock options/warrants, shares in lieu of cash compensation can be granted within an overall limit of 10% total outstanding securities. Stock options, stock option plans and employee stock purchase plans which are in effect when an issuer is first listed should conform to the exchange requirements but may not need a shareholders approval. Similarly stock option up to 2% of total outstanding securities on a non-diluted basis can be issued to an incumbent employee without shareholders' approval. Stock option plans may be accepted by the Exchange without shareholders approval, however, no exercise of such options or rights can be allowed until shareholders approval is obtained. Stock option plans without a fixed maximum number of securities issuable should have approval of both majority directors and shareholders including unrelated directors and shareholders having disproportionate voting rights or holding restricted securities. Insiders if beneficiary of a stock option plan will not be allowed to vote. | No minimum issue price is stipulated by the exchange.  | Minimum listing fee is CAD\$15,000 up to a capitalization range of CAD\$15 million based on issue price and CAD\$1,200 per CAD\$1 million in capitalization over and above CAD\$15 million with a maximum limit of CAD\$150,000. In case of warrants/convertibles, exercise/conversion price will be taken into account. For structured product issuers, in addition to minimum listing fee of CAD\$15,000, additional fee is calculated @0.025% over and above CAD\$15 million capitalization. Average market price for previous 5 days will be used in case of transfer. Fees for shares where 5% or less are held by Canadian residents, the variable fee is CAD\$600 above CAD\$15 million capitalization with a maximum limit of CAD\$95,000. for each series of warrants or convertible securities to be listed, CAD\$3,000. For international ETFs, CAD\$20,000 and for fund families, with at least 5 ETFs listed, additional listing @CAD\$10,000 up to a maximum of CAD\$200,000. | Minimum CAD\$8,000 plus CAD\$380 per CAD\$5 million with a maximum of CAD\$65,000 (CAD\$40,000 for non-Canadian companies). Listing fee for additional securities is calculated as CAD\$1,000 plus CAD\$1,200 per CAD\$1 million in value over initial CAD\$1 million with a maximum limit of CAD\$125,000; for structured products @0.0125% of capitalization in excess of CAD\$1 million with a similar maximum cap. | Substitutional listing fee for split/subdivided/otherwise changed CAD\$8,000, consolidation CAD\$4,000, name/classification change CAD\$2,000, name of company CAD\$2,000, change of stock symbol/notice filing/shareholders rights plan and amendment to it/for normal course issuer bid CAD\$1,000. For additional substitutional and supplemental listings, the fees are minimum CAD\$1,000 up to CAD\$1 million plus CAD\$600 per CAD\$1 million in capitalization with a maximum of CAD\$40,000.   |
| TSX VENTURE EXCHANGE                 | The exchange requires vetting of stock options and in order to maintain that stock options are provided on equitable basis, requires due approval of the disinterested shareholders so that stock options do not amount to excessive or disproportionate liquidity or dilution. There is an over all cap of 10% of total current outstanding shares under a rolling plan and 20% cap of total existing outstanding shares at a given date under a fixed plan with maximum cap of 5% to any single individual in a 12 months period unless disinterested shareholders' approval has been obtained by the issuer. Stock options to consultants, investor relations persons are capped at 2% of the maximum permissible limit. Normally stock options will have a 4 months hold period if the exercise price is based on discounted market price and the issuer is a Tier 2 issuer. Stock options exercisable at market price may be exempted from a hold period.   | Minimum issuance price of \$0.05 per security or the discounted market price (@ 25% up to \$0.50, 20% for \$0.51 to \$2.00 or 15% above \$2.00) and a minimum exercise price of \$0.10 for warrants and incentive stock options. IPO pricing should not be less than \$0.15 per share or unit. | New listing/RTO/QT/COB: Minimum \$7,500 or \$7,500 plus 0.5% deemed value of shares issued up to a maximum of \$30,000. In the case of Capital Pool Company, minimum \$5,000 or \$5,000 plus 0.5% of deemed value of shares issued up to a maximum of \$10,000. Additional issue of shares private placement/public offering/bonus shares/issue of shares to financiers or providers of loans/shares for debt or expedited acquisition: Minimum \$ 500 or \$500 plus 0.5% of proceeds raised/deemed value of shares issued up to a maximum of \$30,000. Supplemental listing fee of \$1,000 for listing of warrants in conjunction with a Private Placement or Public Offering subject to the financing fees applicable to the latter. Additional Listing fees: in the case of amalgamation, merger, share split minimum \$1,000 or \$1,000 plus 0.5% of deemed value of shares issued up to a maximum of \$30,000.   | Minimum \$2,750, or \$2,750 plus \$50 for each \$1 million in market capitalization or part thereof.   | Stock option plan: minimum \$750 or \$0.001 per share reserved for issuance up to a maximum of \$30,000. Amendment to stock option plan, extension/price amendment of warrants, convertibles \$750. Normal course issuer bid/exchange take-over bid or issuer bid \$750, Share split \$1,000 or \$1,000 plus 0.5% of deemed value of shares issued to a maximum of \$30,000. Tier upward movement: \$2,500, amendment of escrow agreement, transfer, release (non contested \$500, contested \$1,000), Investor relations agreement, name change, management agreement, employment and admin. contracts, shareholders rights plan, alteration in capital, reinstatement after suspension, filing of missing transactions: \$500 |
| AIM-LONDON                           | Not required by the exchange   | Not required   | GBP 4,180 or CAD\$ 7,290*   | GBP 4,180 or CAD\$ 7,290   | Not specified   |

**A COMPARISON OF MINIMUM LISTING REQUIREMENTS-  
TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, NASD BULLETIN BOARD, PINK SHEETS AND CNQ**

APPENDIX-A

| Name of the Exchange or Market Place | Restrictions on, or Vetting of stock options/warrants shares in lieu of cash compensation   | Pricing of Issue   | COST   |   |   |
|--------------------------------------|---|--|--|---|---|
|                                      |   |  | Initial Listing fees   | Annual Listing Fees   | Other listing fees or fees for vetting material information/continuous disclosure documents |
| AUSTRALIAN STOCK EXCHANGE            | The company needs to inform the exchange in advance such issues   | Minimum bid 20 cents except issued under Employee Incentive Scheme, partly paid securities should have a definite call program further extendable by 6 months, however, in case of mining company should not be beyond 2 years. Options are also valued at minimum 20 cents  | Minimum listing fees AUD\$13,310 ( up to AUD\$ 3 million and thereafter on a diminishing scale), no maximum limit. For further Issues, up to AUD 100,000 a minimum of AUD\$1,200 and thereafter, on a diminishing scale. No maximum limit. ASX charges AUD\$ 300 per hour in excess of 10 hours of professional services provided. Application for in principle listing rule waivers AUD\$ 7,500 adjusted against minimum listing fees. Review of prospectus or information memorandum AUD\$ 12,100 adjusted against initial listing fees. | Minimum AUD\$ 6,710 up to AUD\$ 3 million and thereafter on a diminishing scale. Maximum is capped at AUD\$ 133,100. Suspension over more than 12 months AUD\$ 13,420. 50% of annual listing fees is refunded if the entity securities cease to quote on the issuer's request or due to merger. | No fees for filing electronically. Notification by fax, AUD\$38.50 per announcement.        |
| NASDAQ SMALL CAP                     | Yes, restrictions on, or Vetting of stock options/warrants shares in lieu of cash compensation (Stock split/stock dividend or reverse split; Other distributions in cash or in kind, including a dividend or distribution of any security; Subscription offering or rights offering/poison pill). | Minimum bid price \$4, for continuous listing \$1(Please note that the bid price and market value of publicly held shares requirements for initial listing standards of non-US. issuers became effective on September 28, 2004. The continued listing requirements for non-US. issuers will be effective on May 29, 2006). | \$ 5000 with a cap of \$50K on the following scale:- up to 5 million shares \$25K, 5+ to 10 million shares \$35K, 10+ to 15 million shares \$45K and over 15 million shares \$50K (1)  | up to 10 million shares \$17.5K, over 10 million shares \$21K(2)  | Not specified   |
| NASD OTC BULLETIN BOARD              | Not required  | Not required   | Nil  | Nil   | Not specified   |

**A COMPARISON OF MINIMUM LISTING REQUIREMENTS-  
TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, NASD BULLETIN BOARD, PINK SHEETS AND CNQ**

APPENDIX-A

| Name of the Exchange or Market Place | Restrictions on, or Vetting of stock options/warrants, shares in lieu of cash compensation  | Pricing of Issue   | COST  |   |   |
|--------------------------------------|---|--|---|---|---|
|                                      |   |  | Initial Listing fees  | Annual Listing Fees   | Other listing fees or fees for vetting material information/continuous disclosure documents |
| PINK SHEETS                          | Not required  | Yes, the broker/dealer need to justify the pricing entry   | Nil   | Nil   | Not required  |
| CNQ                                  | A CNQ Issuer must not grant stock options with an exercise price lower than the greater of the closing market prices of the underlying securities on (a) the trading day prior to the date of grant of the stock options; and (b) the date of grant of the stock options. For clarity a CNQ Issuer is or is deemed to be a non-listed issuer for purposes of Multilateral Instrument 45-105 which deals with issue of security to directors, employees or any control persons including investor relations persons. Quoted 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. | CNQ Issuers may not make a private placement at a price per security lower than the greater of (a) \$0.05 and (b) the closing market price of the security on the CNQ System on the Trading Day prior to the earlier of dissemination of a news release disclosing the private placement or posting of notice of the proposed private placement, less a discount which shall not exceed the amount set forth below:<br>Closing Price<br>Discount Up to \$0.50      25%<br>(subject to a minimum price of \$0.05)<br>\$0.51 to \$2.00      20%<br>Above \$2.00      15%<br>Issuer may request for price protection prior to filing for private placement. | \$10,000, application following a fundamental change**** will be deemed as fresh listing at a fee of \$10,000 | Monthly maintenance fee of \$300, requalification fee of \$500 for readmission after suspension | Not required  |



### Notes:

#### TSX MAIN

The basic spirit of 'escrow' holdings and period is derived from National Policy 46-201 and the escrow provisions are being administered by TSX. In addition to the National Policy directives, TSX applies escrow provisions on issuers who get listed on account of a reverse takeover or issuers who have conducted their IPOs in markets outside CSA jurisdiction in the preceding 12 months of their listing.

**The details of regular online filing forms through 'SecureFile' are provided in Appendix H of the Company Manual, except for PIF.**

#### TSX Venture Exchange:

A principal for this purpose of hold period or escrow is defined as (a) a person or company who acted as a promoter of the issuer within two years before the IPO prospectus; (b) a director or senior officer of the issuer or any of its material operating subsidiaries at the time of the IPO prospectus; (c) a 20% holder – a person or company that holds securities carrying more than 20% of the voting rights attached to the issuer's outstanding securities immediately before and immediately after the issuer's IPO; (d) a 10% holder – a person or company that (i) holds securities carrying more than 10% of the voting rights attached to the issuer's outstanding securities immediately before and immediately after the issuer's IPO and (ii) has elected or appointed, or has the right to elect or appoint, one or more directors or senior officers of the issuer or any of its material operating subsidiaries or any other entity 50% of which is held by any of the above principals. This also includes any holdings by a principal's relatives and spouse living at the same address. Securities include any outstanding convertible securities. Less than 1% holdings are exempted. Securities held by the principals supported by value should be placed under Value Security Escrow agreement all others will be placed under a 'Surplus Security Escrow Agreement'.

Securities are value securities if they are supported by underlying assets/properties/business/indebtedness or services for which the securities are being issued equals or exceeds the deemed value of the securities to be issued. The deemed price per security must not be less than the greater of discounted market price or \$0.05. Valuation methodology has been prescribed for different types of issuers and for concurrent financing it is being calculated as gross proceeds of financing multiplied by total no. of outstanding shares divided by shares to be issued pursuant to financing. Seed Share Resale Restrictions applicable to non-principals in connection with their services in IPO, reverse take-over, change of business or qualifying transaction. It may also apply to principals, where such principals are not subject to escrow requirements due to change of business.

Non-transferable agents options should not be more than 25% of total number of shares offered for sale under the prospectus.

#### AIM-London:

\* ' The initial admission cost of AIM-London may go up by GBP 2,500 to 5,700 for filing and vetting of Prospectus/Admission Document following the implementation of FSA Prospectus Directive since July 01, 2005, for a company which makes a public offer to more than 100 persons in an EU Member State and the aggregate value of securities being offered is greater than Euro 2.5 million (cumulative) in any one year. Under the new Prospectus Directives of FSA, disclosure requirements are going to be more stringent for AIM admission, particularly in the areas of financial and operating information including tangible assets, capital resources, future trends and prospects, Management Discussion and Analysis (MD&A), risk factors, dividend policy, working capital statement including funds intended to be raised (according to AIM it was for 12 months from the date of admission, now it is 12 months from date of filing the

## APPENDIX - A

prospectus, capitalization and indebtedness within 90 days of filing of document, proposed allottees, particularly participation by directors and employees or others over 5%, dilution, public display documents including memorandum and articles available for 12 months (onus of responsibility with issuer and its directors), conflicts of interest, remuneration and benefits, Board Practices (audit and remuneration committees, compliance with corporate governance requirements).

AIM requires disclosure of corporate transaction (substantial transaction above 10%; related party transaction above 5%; reverse takeover above 100% and related party transaction above 0.25% under financial disclosure of class tests) and adopts a class test for determining the size of the transaction. The class tests are Gross Assets Test = (gross assets of the transaction/gross assets of the issuer)\*100%; Profits Test = (Profits attributable to the assets of the transaction/Profit of the Issuer)\*100%; Turnover Test = Turnover attributable to the assets of the transaction/Turnover of the Issuer)\*100%; Consideration Test = (Consideration/Aggregate float market value of ordinary equity shares of the issuer)\*100%; Gross Capital Test = (Gross Capital of the Company/business acquired/Gross Capital of the Issuer)\*100%.

### **Australian Stock Exchange:**

Prospective issuer must satisfy the 'asset test' of net tangible assets of AUD\$ 2 million or AUD\$ 10 million in market capitalization or the 'profitability test' such as going concern, in the same business for the last 3 financial years with aggregate profits of AUD\$ 1 million or consolidated profit of AUD\$ 400,000 in the financial year preceding not more than 2 months before the date of listing application.

A foreign company seeking admission into ASX should be compliant with home exchange/regulatory requirements, meet either the net tangible assets or profitability test and have at least 1000 shareholders with a minimum holding of AUD\$ 500 each and comply with other disclosure requirements including submission of audited accounts.

### **NASDAQ Small Cap:**

(1) Variable initial listing fees are based on aggregate number of shares/ADRs to be listed regardless of class.

An issuer that submits an application for inclusion of any class of convertible debentures in The Nasdaq SmallCap Market, shall pay to The Nasdaq Stock Market, Inc. a non-refundable application fee of \$5,000 and a fee of \$1,000 or \$50 per million dollars face amount of debentures outstanding, whichever is higher.

An issuer that submits an application for inclusion of any class of rights in The Nasdaq SmallCap Market, shall pay, at the time of its application, a non-refundable application fee to The Nasdaq Stock Market of \$1,000.

The fee in connection with additional shares shall be \$2,500 or \$.01 per additional share, whichever is higher, up to an annual maximum of \$45,000 per issuer. There shall be no fee, however, for issuances of up to 49,999 additional shares per quarter.

For any other securities or SEEDS (Selected Equity-linked Debt Securities), the non-refundable entry fee is \$ 1000 and variable fee up to 1 million shares is \$5,000, 1+ to 2 million shares, \$10,000, 2+ to 3 million shares \$15,000, 3+ to 4 million shares \$17,500, 4+ to 5 million shares \$20,000, 5+ to 6 million shares \$22,500, 6+ to 7 million shares \$25,000, 7+ to 8 million shares \$27,500, 8+ to 9 million shares \$30,000, 9+ to 10 million shares \$32,500, 10+ to 15 million shares \$37,500, Over 15 million shares \$45,000

For Portfolio Depository Receipts and Index Fund Series, the initial listing fee is \$5000

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(2) In the first year of listing, the annual fee is prorated based on date of listing. The issuer of each class of convertible debentures listed in The Nasdaq SmallCap Market shall pay to The Nasdaq Stock Market, Inc. an annual fee of \$500 or \$25 per million dollars face amount of debentures outstanding, whichever is higher.

For cross listing with NYSE or other national listed securities, the annual fee shall be \$15,000

For any other securities or SEEDS, the annual fee is calculated based on total shares outstanding as follows:-Up to 5 million shares \$15,000, 5+ to 10 million shares \$17,500, 10+ to 25 million shares \$20,000, 25+ to 50 million shares \$22,500, Over 50 million shares \$30,000

For Portfolio Depository Receipts and Index Fund Series, the annual listing fee are as follows:- Up to 1 million shares \$6,500, 1+ to 2 million shares \$7,000, 2+ to 3 million shares \$7,500, 3+ to 4 million shares \$8,000, 4+ to 5 million shares \$8,500, 5+ to 6 million shares \$9,000, 6+ to 7 million shares \$9,500, 7+ to 8 million shares \$10,000, 8+ to 9 million shares \$10,500, 9+ to 10 million shares \$11,000, 10+ to 11 million shares \$11,500, 11+ to 12 million shares \$12,000, 12+ to 13 million shares \$12,500, 13+ to 14 million shares \$13,000, 14+ to 15 million shares \$13,500, 15+ to 16 million shares \$14,000, Over 16 million shares \$14,500

Record-Keeping Fee: An issuer that makes a change such as a change to its name, the par value or title of its security, or its symbol shall pay a fee of \$2,500 to The Nasdaq Stock Market, Inc.

Foreign Exempt Securities: Rules [4520\(b\)\(4\)](#) and [4520\(c\)\(3\)](#) provide Nasdaq with the discretion to waive all or part of the additional share and annual listing fees otherwise due.

Rule interpretation Fees \$2,000, Expeditious response \$10,000.

Capital requirement, market capitalization requirement, earnings requirement or years in business are all mutually exclusive.

Additional Securities Listing Fees: Listed companies will be billed each quarter, and the fee will be calculated based on the company's TSO as reported in its periodic reports filed with the SEC.

The fee is:

Up to 49,999 total shares per quarter – No fee

50,000 to 249,999 total shares per quarter – \$2,500 flat fee

250,000 or more total shares per quarter – \$0.01 per share

Annual fee cap – \$45,000

### **NASD OTCBB:**

"OTC Equity Security" means any equity security not classified as a "designated security," for purposes of the Rule 4630 and 4640 Series. This term also includes certain exchange-listed securities that do not otherwise qualify for real-time trade reporting because they are not "eligible securities" as defined in Rule 6410(d). The term "OTC Equity Security" shall not include "restricted securities," as defined by SEC Rule 144(a)(3) under the Securities Act of 1933, nor any securities designated in The PORTAL<sup>SM</sup> Market, the Rule 5300 Series.

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"Direct participation program" or DPP, means a program which provides for flow-through tax consequences regardless of the structure of the legal entity or vehicle for distribution including, but not limited to, oil and gas programs, real estate programs, agricultural programs, cattle programs, condominium securities, Subchapter S corporate offerings and all other programs of a similar nature, regardless of the industry represented by the program, or any combination thereof. A program may be composed of one or more legal entities or programs but when used herein, the term shall mean each of the separate entities or programs making up the overall program and/or the overall program itself. Excluded from this definition are real estate investment trusts, tax qualified pension and profit sharing plans pursuant to Sections 401 and 403(a) of the Internal Revenue Code and individual retirement plans under Section 408 of that Code, tax sheltered annuities pursuant to the provisions of Section 403(b) of the Internal Revenue Code, and any company, including separate accounts, registered pursuant to the Investment Company Act of 1940.

Securities which are not listed on NASDAQ or any other National Exchange are permitted to admission for quotation on OTCBB. Also securities which are registered with SEC and their transactions are not disseminated via Consolidated Tape and are current in their reporting obligations (Compliance with SEC Rule 15c2-11).

Market Makers include ATS or ECN which should be a member of NASD or meets the requirements of OTCBB.

Members are admitted subject to fulfilling SEC Rule 101 with regard to disclosure of material non-public information and distribution of securities. Regulation M governs activities of persons related to public distribution of securities, such as of underwriters, issuers, selling security holders, and others in connection with offerings of securities. Regulation M is intended to preclude manipulative conduct by persons with an interest in the outcome of an offering. Regulation M significantly eases regulatory burdens on offering participants by eliminating the trading restrictions for underwriters of actively-traded securities; reducing the scope of coverage for other securities; reducing restrictions on issuer plans; providing a more flexible framework for stabilizing transactions; and deregulating rights offerings. Consisting of five new rules, plus a new definitional rule, Regulation M replaces Rules 10b-6, 10b-6A, 10b-7, 10b-8, and 10b-21 ("trading practices rules") under the Securities Exchange Act of 1934("Exchange Act"), which are being rescinded. In addition, related amendments are being made to Items 502(d) and 508 of Regulations S-B and S-K, and to Rules 10b-18 and 17a-2 under the Exchange Act.

At least one member need to agree to assume responsibility of compliance under SEC Rule 104 for syndicated covered transactions.

No charge for admission, Market Maker (MM) pay \$6 per security for market making. NASD prohibits MM to pass it on to issuers.

Issuers who file with SEC via EDGAR do not require to file any document with OTCBB. However, issuers need to file Form 10 or Form 10SB with SEC and obtain clearance before their securities can be quoted on OTCBB. Issuers are required to report corporate actions and routine reporting of stock splits and dividends.

However, to demonstrate compliance with the Eligibility Rule, non-EDGAR filers such as banks, thrifts and insurance companies that file periodically with other regulatory agencies must provide the NASD OTCBB Filings Department copies of their regulatory filings by mailing them to the address below.

Once the MM submits the application with Form 211 (with a reporting schedule) or a 15c2-11(banks, thrifts and insurance issuers and issuers permitted on Pink Sheet. Exemption Form, the security become eligible. Frequency-of-quotation test is applied within 30 days of application and subsequent application by

## APPENDIX - A

another MM. The frequency-of-quotation test or "piggyback" exception is based on whether a broker/dealer has itself published quotations in the security in the applicable interdealer quotation system on at least 12 business days during the preceding 30 calendar days, with not more than four consecutive business days without quotations.

If the issuer is moved from NASDAQ, it must be quoted continuously during the preceding 30 days ( exclusive of trading halt of 1 day) and only those MM will be permitted to trade. It should not be the subject of bankruptcy proceedings, and must be current in its filing.

Market Makers are billed based on the number of positions during a month. Monthly market maker fee is \$6 per position.

No shareholders approval rules, no financial requirements.

### **Pink Sheets:**

Pink Sheets is another OTC market which is open for issuers which are not SEC compliant or reporting issuers, though issuers listed on other markets or exchanges can also be traded on Pink Sheets. It provides electronic trading and real-time market data.

Regarding disclosure requirements, Rule 211 and Rule 15c2-11 applies, however, an issuer does not require financial statements to be audited as long as they are prepared according to GAAP or acceptable accounting practices of other countries. Nonetheless, a broker/dealer may find audited financial statements more reliable than unaudited ones, though he cannot avoid his responsibility to review the financial statements in order to have a reasonable basis to believe that the information is accurate. In some cases where he has doubts on the reliability of information, consultation with an independent accountant or attorney may be warranted. Exception to Rule 15c2-11 may be provided where securities are already traded on a National Exchange, represents unsolicited customer interest, has been regularly and continuously quoted for last 30 days, or is traded on NASDAQ. SEC requires filing of information under 10-K, 10-Q and 8-K and prospectus issued not before 16 months.

According to Section 13 or 15(d) of SEC, issuers should be current in their reporting any financial or other information which can influence price formation. PS provides Pink Sheet News Services for non SEC reporting issuers to make their information publicly available.

Regarding admittance of securities, if they are not issued under Section 12 of SE Act of 1934, the attorney or counsel needs to provide a tradability opinion that material attached to tradability opinion is not deceptive and misleading including adequate current information is available within the meaning of Rule 144(c)(2) and the holders of securities are not the issuer, an underwriter (Section 2(11) or an affiliate of the issuer (Rule 144(a)(1) and are free and exempt securities as provided under Section 4(1) of SE Act.

Only one Market Maker required for an issuer to get quoted on Pink Sheets. However, an issuer may be eligible for the "Globenet Exemption." Under this exemption, a market maker that has been quoting a security for at least 30 days in the OTCBB can initiate a quotation on the Pink Sheets without submitting a Form 211 to the NASD subject to the following conditions:

1. Each broker or dealer relying upon this exemption must have in its records information specified in paragraphs (a)(5)(i), (a)(5)(viii), (a)(5)(xiv), (a)(5)(xv), and (a)(5)(xvi) of Rule 15c2-11;

## APPENDIX - A

2. Two-way bid and ask priced quotations that do not reflect customer indications of interest must have been published during the previous 30 calendar days, with no more than four business days in succession without such quotations, in an interdealer quotation system that displays unsolicited customer indications of interest;

PS provides products and services to issuers to disseminate information so that a market for its security can be created. Pink Sheets News Service is available to issuers to publish their information for a fee. Financial Reports - There is an annual fee of \$499.95, which permits subscribers to post unlimited Financial Reports throughout the year. This fee is non-refundable and automatically renewable.

News Releases - Subscribers can publish News Releases through the Pink Sheets News Service for \$99.95 per release; There is a one-time, non-refundable, \$199.99 account verification and set up fee for all new subscribers.

Real-Time Inside and Full Level II Quote services is available for a price(\$249.95 p/m and set-up fees \$500) for issuers to publish corporate information. Depth of the market: about 12,000 equities listed and about 17,000 companies information, Bloomberg and Reuters provide real-time quote on approximately 3,000 exclusive OTC securities including ADRs of large foreign issuers.

Pink Sheets also claims to have research database of companies listed on all the US Exchanges, OTCBB and Pink Sheets since 1950 which is available upon request for a minimum price of \$100 per company.

Broker/Dealer is required to conduct due diligence of information and satisfies itself that provided by the issuer before filing Form 211.

The broker/dealer's basis and factors should relate to the price that he is proposing and should justify the initial priced entry.

### **CNQ:**

Securities can be quoted in US Dollar or Canadian Dollar. Convertible securities or warrants of an underlying security listed on a recognized stock exchange can be listed.

Shares issued to investors relations persons cannot be more than 1% of outstanding shares in a 12-month period.

\*\*\* Fundamental change in business implies that in the event of an acquisition or merger, 50% assets are compromised, anticipated revenue derived from the assets, properties, businesses or other interests that are the subject of the major acquisition or 'change of control' due to transaction or series of transactions involving the issue or potential issue of that number of securities of a CNQ Issuer that:(i) is equal to or greater than 100% of the number of equity securities of the CNQ Issuer outstanding prior to the transaction or series of transactions (commonly referred to as a "reverse take-over"), or (ii) otherwise results in a change of control of the CNQ Issuer or a substantial change of management or of the board of directors of the CNQ Issuer. Shareholders' approval must have been obtained and information circular with prospectus level disclosure must have been filed. Escrow requirement in compliance with NP 46-201 for a period of 36 months and release initially 10% and thereafter 15% every 6 months.

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CNQ may allow release under exempt or established issuer cases. Issuer should provide audited financial statements or interim financial statement with a comfort letter from the auditor. Non-operating companies should have a reasonable plan to develop an active business and financial resources to carry out the business plan. Total number of convertible securities contemporaneous to a private placement cannot be greater than the securities issued under the private placement.

**A COMPARISON OF CONTINUOUS LISTING REQUIREMENTS-  
TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, OTC BULLETIN BOARD, PINK SHEETS, CNQ**

**APPENDIX- B**

| NAME OF THE EXCHANGE OR MARKET PLACE | Minimum Requirements Criteria                       | FINANCIAL   |   |   |  |   |                              |
|--------------------------------------|---|---|---|---|--|---|------------------------------|
|                                      |   | Net Tangible Assets   | Adequate Working Capital or Financial Resources to carry on business  | Positive Cash flow OR   | Operating Revenue/Earnings in past 12 months., OR                                      | Capital Expenditure within past 12 months.  | Minimum Shareholders' Equity |
| TSX MAIN                             | Minimum Requirements (all values in local currency) | Total assets of at least \$ 3 million and financially solvent.  | Yes, required   | Cash flow is a part of overall performance assessment criteria of listed issuer. No specific minimum required | At least \$3 million in the previous year.   | For research and development issuer, at least \$ 1 million in most recent year and for resource issuer at least \$350,000 on exploration and/or development work. | Nil                          |
| TSX VENTURE EXCHANGE                 | Minimum Requirements (all values in local currency) | Not required for Tier 2 Mining, Oil & Gas issuer. For Tier 1 mining issuer also undefined (significant interest in advanced exploration property), for Tier 1 Oil & Gas- Property or Reserves worth \$1 million with proven reserves of \$500,000. For other Tier 1 issuer Net Tangible Assets \$2 million. For Tier 2 Industrial and Technology issuer \$100,000, for Real Estate and Investment, Research & | Tier 1 issuers should be adequate for 12 months but not defined amount, for Tier 2 issuers adequate to carry on business for 6 months, with at least \$50,000 | Minimum not specified   | \$1 million for Tier 1, significant operating revenue (not defined) for Tier 2 issuers | Capex of \$200,000 for Tier 1 issuer, \$50,000 in exploration for mining and oil & gas issuers and for all others \$100,000                                       | Not specified                |
| AIM- LONDON                          | Minimum Requirements (all values in local currency) | Nil   | Not required  | Not required  | Not required   | Not required  | Not required                 |



**A COMPARISON OF CONTINUOUS LISTING REQUIREMENTS-**

**APPENDIX- B**

**TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, OTC BULLETIN BOARD, PINK SHEETS, CNO**

| NAME OF THE EXCHANGE OR MARKET PLACE | Minimum Requirements Criteria                       | FINANCIAL   |   |   |  |  |                              |
|--------------------------------------|---|---|---|---|--|--|------------------------------|
|                                      |   | Net Tangible Assets   | Adequate Working Capital or Financial Resources to carry on business  | Positive Cash flow OR   | Operating Revenue/Earnings in past 12 months., OR  | Capital Expenditure within past 12 months. | Minimum Shareholders' Equity |
| AUSTRALIAN STOCK EXCHANGE            | Minimum Requirements (all values in local currency) | No minimum requirements specified, however, if 50% or more than 50% of assets are in cash or cash equivalent, ASX may suspend listing to avoid 'cash box' entities. Does not apply to investment, bank or non-bank financial companies. In case of investment entities exception to this rule is provided for initial 6 months. | The issuer is required to submit for the following two financial years whether the cash and cash equivalent has been utilized according to the expenditure program submitted or not and if not what is the company's explanation. | The issuer is required to furnish quarterly cash flow statement if at the time of listing, 50% or more of its assets are in cash or readily convertible into cash with a definite expenditure program | No quantified or minimum requirements. Subject to ASX's assessment, the financial conditions (composition of balance sheet, liabilities to assets ratio and access to funds) and level of operations of the issuer should be sufficient for continued listing. | Not required                               |                              |
| NASDAQ SMALL CAP                     | Minimum Requirements (all values in local currency) | Not required  | Not required  | Not required  | Earnings of \$500K in 2 out of 3 last fiscals  | Not required                               | \$2.5 million                |
| NASD OTC BULLETIN BOARD              | Minimum Requirements (all values in local currency) | Not under bankruptcy process, Form 10-K 10-Q, 8-K filing with SEC   | Not required  | Not required  | Not required   | Not required                               | Not required                 |

**A COMPARISON OF CONTINUOUS LISTING REQUIREMENTS-  
TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, OTC BULLETIN BOARD, PINK SHEETS, CNQ**

**APPENDIX- B**

| NAME OF THE EXCHANGE OR MARKET PLACE | Minimum Requirements Criteria                       | FINANCIAL   |  |                       |   |  |                              |
|--------------------------------------|---|---|--|-----------------------|---|--|------------------------------|
|                                      |   | Net Tangible Assets   | Adequate Working Capital or Financial Resources to carry on business | Positive Cash flow OR | Operating Revenue/Earnings in past 12 months., OR | Capital Expenditure within past 12 months. | Minimum Shareholders' Equity |
| PINK SHEETS                          | Minimum Requirements (all values in local currency) | Not under bankruptcy process, Form 10-K 10-Q, 8-K filing with SEC | Not required   | Not required          | Not required                                      | Not required                               | Not required                 |
| CNQ                                  | Minimum Requirements (all values in local currency) | Not required  | Not required   | Not required          | Not required                                      | Not required                               | Not required                 |

**A COMPARISON OF CONTINUOUS LISTING REQUIREMENTS-  
TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, OTC BULLETIN BOARD, PINK SHEETS, CNQ**

**APPENDIX- B**

| NAME OF THE EXCHANGE OR MARKET PLACE | Minimum Requirements Criteria                       | CORPORATE GOVERNANCE   |   |  |  |   | No. of shares outstanding |
|--------------------------------------|---|--|---|--|--|---|---------------------------|
|                                      |   | Minimum Market Capitalization  | Asset Impairment or Ceased Operations   | Audit Committee                          | 2 Independent Directors on the Board   | Public Disclosure of Corporate Governance Practices   |                           |
| TSX MAIN                             | Minimum Requirements (all values in local currency) | If market capitalization of issued securities falls below \$3 million or freely-tradable securities falls below \$2 million over any 30 consecutive trading days | Yes, a substantial portion of its business or assets.   | Yes, composed of only outside directors. | Yes, majority independent directors on board and in all committees and preferably headed by an independent director. | Yes, adoption of strategic planning process, principal business risks, succession planning, internal control and reporting system and communication policies towards beneficiary stakeholders. Appointment of directors by a nominee committee of independent directors. Executive compensation committee and committee for compensation for directors including their appointment as advisers. | 500,000                   |
| TSX VENTURE EXCHANGE                 | Minimum Requirements (all values in local currency) | Not specified  | Asset and Operations – Must not have, reduced or impaired operating assets, ceased operations, or discontinued a substantial portion of operations/business | Required                                 | Required   | Required for Tier 1 issuer  | Not required              |
| AIM- LONDON                          | Minimum Requirements (all values in local currency) | Not required   | Not required  | Not required                             | Not required   | Not required  | Not required              |

**A COMPARISON OF CONTINUOUS LISTING REQUIREMENTS-**

**APPENDIX- B**

**TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, OTC BULLETIN BOARD, PINK SHEETS, CNO**

| NAME OF THE EXCHANGE OR MARKET PLACE | Minimum Requirements Criteria                       | CORPORATE GOVERNANCE          |                                       |   |                                      |  |              | No. of shares outstanding |
|--------------------------------------|---|-------------------------------|---------------------------------------|---|--------------------------------------|--|--------------|---------------------------|
|                                      |   | Minimum Market Capitalization | Asset Impairment or Ceased Operations | Audit Committee   | 2 Independent Directors on the Board | Public Disclosure of Corporate Governance Practices  |              |                           |
| AUSTRALIAN STOCK EXCHANGE            | Minimum Requirements (all values in local currency) | Not required                  | Not required                          | Yes for all companies, but audit committee composition mandatory for index companies only | Yes                                  | Yes, but mandatory for index companies only  | Not required |                           |
| NASDAQ SMALL CAP                     | Minimum Requirements (all values in local currency) | \$35 million                  | Not required                          | Yes for all companies   | Yes                                  | Yes, distribution of Annual and Interim Reports, Solicitation of Proxies, Independent Directors, Conflicts of Interest, Audit Committees, Shareholder Approval, Shareholder Meetings, Stockholder Voting Rights, Quorum, Code of Conduct | 500,000      |                           |
| NASD OTC BULLETIN BOARD              | Minimum Requirements (all values in local currency) | Not required                  | Not required                          | OTCBB doesn't, but will be required under SEC compliance to SOX                           | Yes                                  | Yes  | Not required |                           |

**A COMPARISON OF CONTINUOUS LISTING REQUIREMENTS-  
TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, OTC BULLETIN BOARD, PINK SHEETS, CNQ**

**APPENDIX- B**

| NAME OF THE EXCHANGE OR MARKET PLACE | Minimum Requirements Criteria                       | CORPORATE GOVERNANCE          |                                       |   |   |   |              | No. of shares outstanding |
|--------------------------------------|---|-------------------------------|---------------------------------------|---|---|---|--------------|---------------------------|
|                                      |   | Minimum Market Capitalization | Asset Impairment or Ceased Operations | Audit Committee   | 2 Independent Directors on the Board  | Public Disclosure of Corporate Governance Practices |              |                           |
| PINK SHEETS                          | Minimum Requirements (all values in local currency) | Not required                  | Not required                          | Not required, but required under applicable securities law, if they are reporting issuers | Not required, but required under applicable securities law, if they are reporting issuers | Required  | Not required |                           |
| CNQ                                  | Minimum Requirements (all values in local currency) | Not required                  | Not required                          | Yes, 500,000  | Not required, but required under applicable corporate law                                 | \$50,000  | Yes, 100     |                           |

**A COMPARISON OF CONTINUOUS LISTING REQUIREMENTS-  
TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, OTC BULLETIN BOARD, PINK SHEETS, CNQ**

**APPENDIX- B**

| NAME OF THE EXCHANGE OR MARKET PLACE | Minimum Requirements Criteria                       | BROAD MARKETPLACE   |                      |   | DISCLOSURE     |  |
|--------------------------------------|---|---|----------------------|---|----------------|--|
|                                      |   | Public Float  |                      | Market Makers                                       | Bid Ask Spread | Disclosure of Material Information   |
|                                      |   | Market Value  | Minimum Shareholders |   |                |  |
| TSX MAIN                             | Minimum Requirements (all values in local currency) | freely-tradable securities falls below \$2 million over any 30 consecutive trading days | 150                  | Not required  | Not required   | File any information that is material or deemed to be material and which may have an impact on the issuer's securities prices. The issuer must file copies of notice of meeting, form of proxy, information circular, financial statements and MD&A. The issuer should also file information circular related to significant transactions, revision in their terms and conditions, management contracts and escrow and pooling arrangement, or any other material contracts/changes. |
| TSX VENTURE EXCHANGE                 | Minimum Requirements (all values in local currency) | For Tier 1 \$750,000 and for Tier 2 \$100,000   | 150                  | Not required  | Not required   | The issuer must file copies of notice of meeting, form of proxy, information circular, except financial statements and MD&A. The issuer should also file information circular related to significant transactions, revision in their terms and conditions, management contract and escrow and pooling arrangement, or any other material changes.  |
| AIM- LONDON                          | Minimum Requirements (all values in local currency) | Not required  | Not required         | Yes, also requires a Broker and a Nominated Advisor | Not required   | Yes, companies require to disclose all material information concerning their operations, major contracts, agreements signed.   |

**A COMPARISON OF CONTINUOUS LISTING REQUIREMENTS-**

**APPENDIX- B**

**TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, OTC BULLETIN BOARD, PINK SHEETS, CNO**

| NAME OF THE EXCHANGE OR MARKET PLACE | Minimum Requirements OR Criteria                      | BROAD MARKETPLACE |                      |               | DISCLOSURE   |  |
|--------------------------------------|---|-------------------|----------------------|---------------|--|--|
|                                      |   | Public Float      |                      | Market Makers | Bid Ask Spread   | Disclosure of Material Information   |
|                                      |   | Market Value      | Minimum Shareholders |               |  |  |
| AUSTRALIAN STOCK EXCHANGE            | Minimum Requirements (all values in local currency) → | Not required      | Not required         | Not required  | ASX requires issuers to maintain an acceptable level of spread or to obtain an acceptable level of spread within 3 months of notice (pl. refer to notes) | Yes, half yearly, annual and quarterly in case cash or cash equivalent is 50% or more of total assets. The annual and half yearly financial accounts should be filed within 75 days, Australian Equivalent of International Financial Reporting Standards being implemented, mandatory electronic filing. Additional quarterly disclosures are required to be submitted by mining producing and exploration entities, in terms of summary of expenditure/ lease acquisition, production/development etc. |
| NASDAQ SMALL CAP                     | Minimum Requirements (all values in local currency) → | \$ 1 million      | 300                  | 2             | Not required   | Regulation Fair Disclosure Compliant Method(s): Broad dissemination press release, Filing of Form 8-K or 6-K with SEC, Conference calls, Press Conference, or Webcasts with prior public notice or Stockwatch  |
| NASD OTC BULLETIN BOARD              | Minimum Requirements (all values in local currency) → | Not required      | Not required         | at least 1    | one-sided or two-sided bids or solicitor's bids, unpriced quote, minimum quote size required   | Yes, on EDGAR including compliance with Section 302 and 906 of SOX regarding directors and senior officers' responsibilities   |

**A COMPARISON OF CONTINUOUS LISTING REQUIREMENTS-  
TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, OTC BULLETIN BOARD, PINK SHEETS, CNQ**

**APPENDIX- B**

| NAME OF THE EXCHANGE OR MARKET PLACE | Minimum Requirements OR Criteria                      | BROAD MARKETPLACE |                      |               |   | DISCLOSURE  |
|--------------------------------------|---|-------------------|----------------------|---------------|---|---|
|                                      |   | Public Float      |                      | Market Makers | Bid Ask Spread  | Disclosure of Material Information  |
|                                      |   | Market Value      | Minimum Shareholders |               |   |   |
| PINK SHEETS                          | Minimum Requirements (all values in local currency) → | Not required      | Not required         | at least 1    | one-sided or two-sided bids or solicitor's bids, unpriced quote | Yes, filing of Form 10-K, 10-Q and 8-K including all material information required to be updated under Rule 15c2-11 of Securities Exchange Act 1934 on EDGAR including compliance with Section 302 and 906 of SOX regarding directors and senior officers' responsibilities   |
| CNQ                                  | Minimum Requirements (all values in local currency) → | Not required      | Yes                  | Not required  | Not required  | Yes, changes in government policy that impact issuer's business, significant transaction*, major corporate changes such as increase in capital, business acquisition, new product development or other events, plans or agreement which will have material impact on issuer's business. Financial forecast not required but any significant changes in earnings in future should be disclosed. All filings with respective securities commission should be copied including request for non-disclosure of confidential information. |



**A COMPARISON OF CONTINUOUS LISTING REQUIREMENTS-  
TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, OTC BULLETIN BOARD, PINK SHEETS, CNQ**

**APPENDIX- B**

| NAME OF THE EXCHANGE OR MARKET PLACE | Minimum Requirements Criteria                       | INSIDER TRADING  |                                       |  |
|--------------------------------------|---|--|---------------------------------------|--|
|                                      |   | Important Notifications  | Routine                               | Universal Market Rule Practices  |
| TSX MAIN                             | Minimum Requirements (all values in local currency) | All routine corporate action matters such as stock split, redemption, cancellation of securities, dividend, shareholders meeting, etc. | Yes, including online filing on SEDI. | Yes on trading by any control person or group of persons or any person or group of persons and their affiliates holding more than 20% of voting rights. Also follows certain additional practices related to escrow/hold period of promoters/control persons' holdings and secondary offerings of control persons' holdings. Also on employee trading practices. |
| TSX VENTURE EXCHANGE                 | Minimum Requirements (all values in local currency) | All routine corporate action matters such as stock split, redemption, cancellation of securities, dividend, shareholders meeting, etc. | Yes, including online filing on SEDI. | Yes on trading by any control person or group of persons or any person or group of persons and their affiliates holding more than 20% of voting rights. Also follows certain additional practices related to escrow/hold period of promoters/control persons' holdings and restrictions on seed share resale and employee trading practices.                     |
| AIM- LONDON                          | Minimum Requirements (all values in local currency) | Yes  | Yes                                   | No   |

**A COMPARISON OF CONTINUOUS LISTING REQUIREMENTS-**

**APPENDIX- B**

**TSX VENTURE AIM- LONDON ASX NASDAQ SMALL CAP OTC BULLETIN BOARD PINK SHEETS CNQ**

| NAME OF THE EXCHANGE OR MARKET PLACE | Minimum Requirements Criteria                       | INSIDER TRADING   |                        |                                |
|--------------------------------------|---|---|------------------------|--------------------------------|
|                                      |   | Important Notifications   | Routine Rule Practices | Universal Market Own practices |
| AUSTRALIAN STOCK EXCHANGE            | Minimum Requirements (all values in local currency) | Yes, mandatory electronic filing  | Yes                    | No                             |
| NASDAQ SMALL CAP                     | Minimum Requirements (all values in local currency) | Listing of shares, stock split/stock div., change in name, trade symbol, security value/title, transfer agent; SEC Forms 10-K, 10-Q, 8-K, 6-K, 12b-25, 20-F, 40-F, or equivalent Documents; Proxy Statement, etc. | Yes                    | No                             |
| NASD OTC BULLETIN BOARD              | Minimum Requirements (all values in local currency) | Yes, required to be filed   | Yes                    | No                             |

**A COMPARISON OF CONTINUOUS LISTING REQUIREMENTS-  
 TSX VENTURE, AIM-LONDON, ASX, NASDAQ SMALL CAP, OTC BULLETIN BOARD, PINK SHEETS, CNQ**

| NAME OF THE EXCHANGE OR MARKET PLACE | Minimum Requirements Criteria                         | INSIDER TRADING   |                               |               |
|--------------------------------------|---|---|-------------------------------|---------------|
|                                      |   | Important Notifications   | Routine Market Rule Practices | Own practices |
| PINK SHEETS                          | Minimum Requirements (all values in local currency) → | All important material events such as stock split, dividend, change of address and so on  | Yes                           | No            |
| CNQ                                  | Minimum Requirements (all values in local currency) → | All important corporate events such as stock split, dividend, change of address and so on | Yes                           | No            |

### Notes:

#### TSX MAIN:

The net tangible assets and revenue requirements are not applicable to research and development or resource issuers companies as they are being assessed on the basis of capital expenditure on research development or on exploration and production development.

#### TSX VENTURE:

Disclosure of material information required under applicable securities law, i.e., filing of annual and interim financial statements along with Management Discussion and Analysis in accordance with National Instrument 51-201 and communication with beneficial owners of securities in accordance with National Instrument 54-101. Must file copies of notice of meeting, form of proxy, information circular, except financial statements and MD&A. If a proposed transaction to be submitted to shareholders also requires exchange's acceptance, the issuer must obtain acceptance before mailing such material to the shareholders or at least advise the exchange in advance of the proposed mailing. Must file information circular for a significant acquisition or file a business acquisition report if the acquisition is made after nine months of the information circular or there are material changes to the terms of the acquisition. The issuer must also provide the exchange for its acceptance and compliance of applicable policies, any change in management or control or any such plan that may result in change in management and control along with disinterested shareholders approval, a sponsor report, personal information forms of new directors or senior officers and their declarations. Issuer should also notify the exchange about any material agreement, management contract and escrow and pooling arrangements. Issuer must inform the exchange about stock split, redemption or cancellation of listed shares.

#### ASX:

Does not allow a company to raise more than 15% of its existing share capital without shareholders' approval. Further, issue price should be at least 80% of the average price of the last 5 trading days.

To satisfy the initial minimum spread requirement for ASX Listing, the entity must satisfy one of the following conditions:-

- It must have 500 holders, each holding a parcel of securities with a value of at least A\$2,000;
- it must have 400 holders, each holding a parcel of securities with a value of at least A\$2,000; and
- persons who are not related parties must hold at least 25% of securities to be quoted.

This requirement ensures that there is sufficient interest in the entity to justify listing, and aids liquidity.

#### NASDAQ:

Disclosure of material information includes,

- Financial-related disclosures, including quarterly or yearly earnings, earnings restatements, pre-announcements or "guidance";
- Corporate reorganizations and acquisitions, including mergers, tender offers, asset transactions and bankruptcies or receiverships;
- New products or discoveries, or developments regarding customers or suppliers (e.g., significant developments in clinical or customer trials, and receipt or cancellation of a material contract or order);

## APPENDIX- B

- Senior management changes of a material nature or change in control;
- Resignation or termination of independent auditors, or withdrawal of a previously issued audit report;
- Events regarding the issuer's securities – e.g., defaults on senior securities, calls of securities for redemption, repurchase plans, stock splits or changes in dividends, changes to the rights of security holders or public or private sales of additional securities;
- Significant legal or regulatory developments;
- Any event requiring the filing of a Form 8-K or Form 6-K.

### **OTC BB:**

A Form 10-K does not satisfy the requirements of the OTCBB Eligibility Rules if management has not completed its assessment of internal control over financial reporting or the auditor's attestation report contains an opinion that is disclaimed because the auditor did not have time to complete its internal control work. Thus, any issuer filing without a completed assessment by management or with such a disclaimed opinion would not ordinarily be eligible for quotation on the OTCBB. However, NASD acknowledges that during this first year of implementation of Section 404 it has proven difficult for certain issuers to complete their assessment of internal control over financial reporting and file their Form 10-K's without disclaimed opinions. As a result, NASD, after consultation with the Staff of the Securities and Exchange Commission, has determined that during 2005, management's failure to complete its assessment of internal control over financial reporting or an auditor's opinion that is disclaimed based on a lack of time to complete internal control work will not result in a security becoming ineligible, provided the company is taking all steps required by the Staff of the SEC to address these issues. Please keep in mind, however, that no issuer will be eligible for this relief unless the Form 10-K contains an unqualified audit opinion on the company's financial statements. Notice of suspension may be issued for compliance within 30-60 days ,if

- The audit opinion is qualified or was not provided
- No SAS-100 review was performed (quarterly filings only)
- The required 302 Certification was not included in the submission to the SEC
- The required 906 Certification was not included in the submission to the SEC
- The auditor was not registered with the Public Company Accounting Oversight Board
- The Section 404 opinion was not provided

### **PINK SHEETS:**

Disclosure requirement under Rule 15c2-11 is quite exhaustive and elaborative which includes anything and everything starting from conclusion/termination of agreement, acquisition/disposal of assets, financial obligation including off-balance sheet obligation created or reduced, events that may trigger financial obligations, cost associated with exit or disposal of activities, material impairments, unregistered sale of securities(including Reg. D-Rule 504 offerings), material modification to rights of securities holders, change in certifying accountant, non-reliance on previously issued financial statements or related audited report or completed interim review, change in control of issuer, change in directors, principal officers, amendment to article of incorporation or bylaws, change in fiscal year, amendment to issuer's code of ethics or waiver of a provision of code of ethics.

## APPENDIX- B

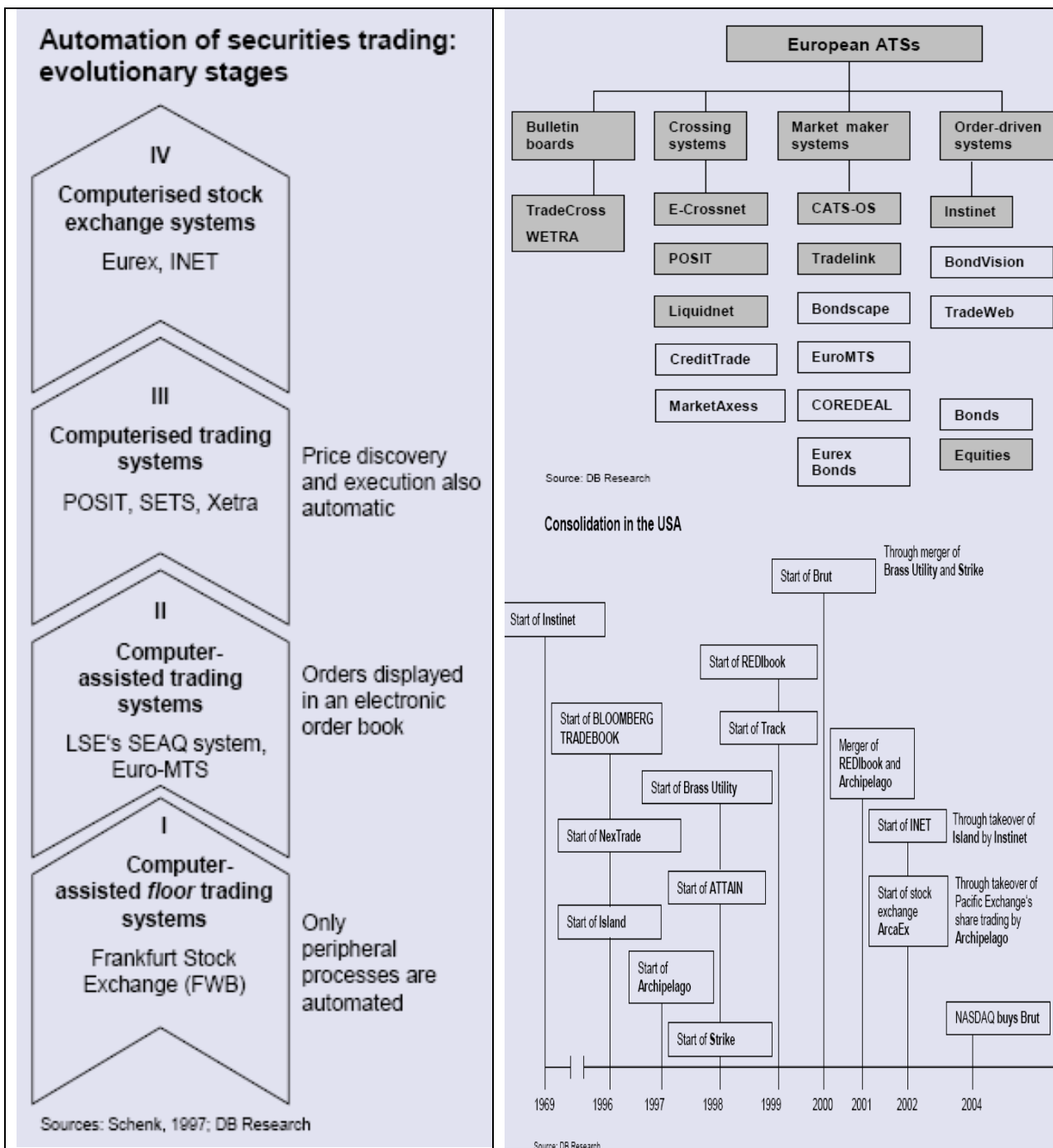
### CNQ:

Disclosure requirements should meet standard prescribed under 51-201.

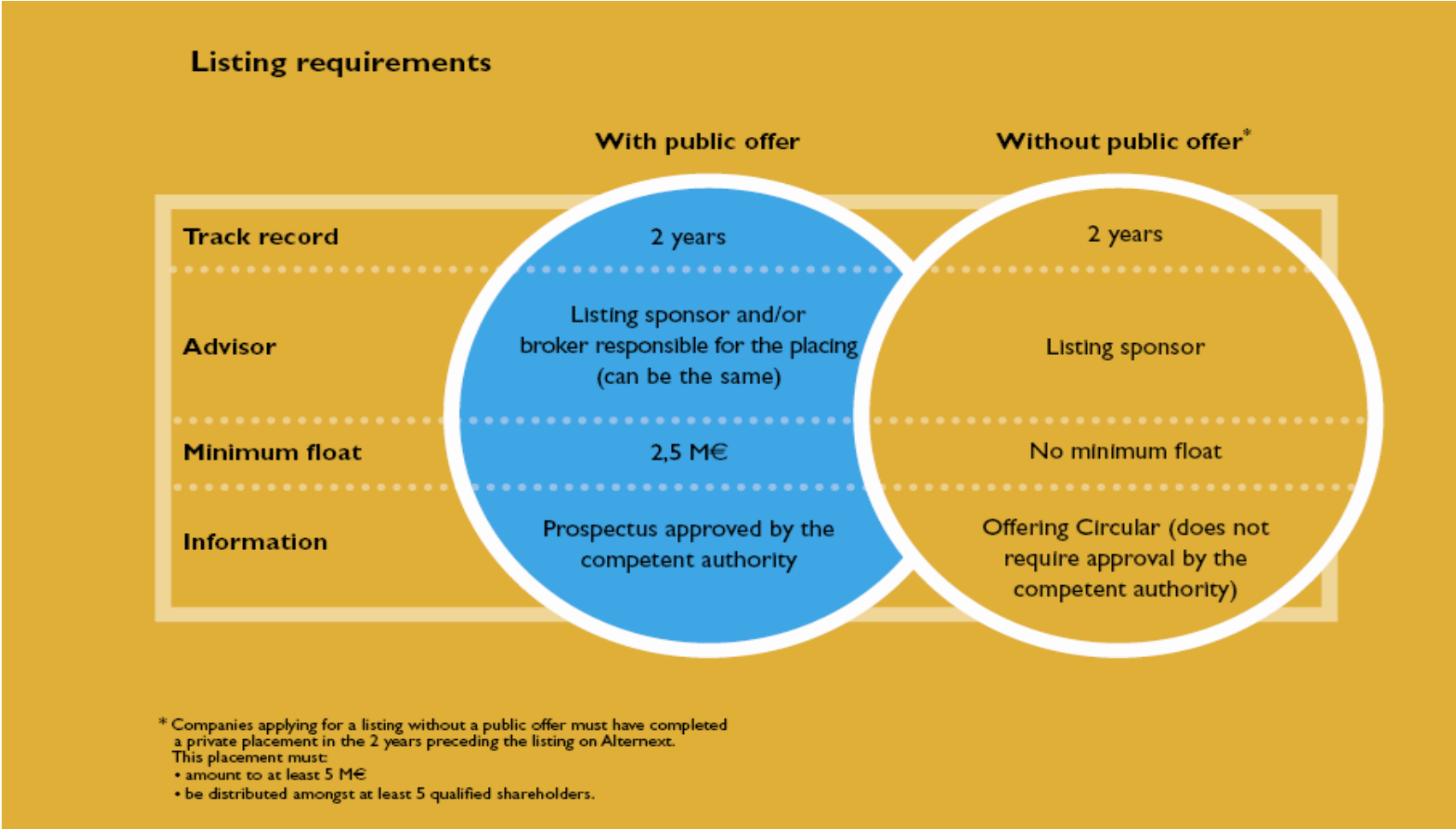
\*\*\* Significant Transaction: Any transaction or series of transactions with a Related Person with an aggregate value greater than the lower of (i) \$10,000 and (ii) 10% of the CNQ Issuer's market capitalization; (b) any loan to a CNQ Issuer other than a loan made by a financial institution; (c) any payment of bonuses, finders fees, commissions or other similar payment by a CNQ Issuer; and (d) entering into any oral or written contract for Investor Relations Activities relating to the CNQ Issuer by the CNQ Issuer or by any other person of which the CNQ Issuer has knowledge.

# APPENDIX- C

## ALTERNATE TRADING SYSTEMS



# NOW EURONEXT NEW MARKETS ARE ALTERNEXT





## A COMPARISON OF PREVIOUS EURO NEW MARKETS LISTING REQUIREMENTS

| Listing Criteria            | Euro NM (Brussels)  | Nouveau Marche (France)   | Neuer Markt (Germany)                          | Euro.NM (Amsterdam)   |
|-----------------------------|---|---|--|---|
| <b>Capital</b>              | ≥ 1.5 million euro  | ≥ 1.5 million euro  | ≥ 1.5 million euro                             | ≥ 1.5 million euro of net worth   |
| <b>Age</b>                  | Not prescribed  | ≥ 3 years   | ≥ 3 years                                      | At least one balance sheet published (may be exempted)                      |
| <b>Accounting Standards</b> | Not prescribed  | Quarterly Reports; Annual Financial Analysts Conference; US-GAAP or IAS   | Quarterly Reports                              | Not prescribed  |
| <b>Profitability</b>        | Not required  | Not required  | Must be able to generate profits               | Must be able to generate profits  |
| <b>Prospectus</b>           | Yes   | Yes. Must also be published in English.   | Yes  | Yes   |
| <b>IPO Volume</b>           | ≥ 5 million euro; ≥ 100,000 shares to be issued.  | ≥ 5 million euro. Total par value ≥ 500.00 DM; ≥ 100,000 shares to be issued.   | ≥ 5 million euro.                              | ≥ 5 million euro; ≥ 100,000 shares to be issued                             |
| <b>Free Float</b>           | ≥ 20% of the capital; ≥ 50% of free float must come from capital increase                 | ≥ 20% of the capital; ≥ 25% recommended not to be closely held; ≥ 50% of free float must come from a capital increase | Not prescribed                                 | ≥ 20% of the capital; ≥ 50% of free float must come from a capital increase |
| <b>Type of Shares</b>       | No restrictions to free negotiability   | Only ordinary shares (for the first issue); no restrictions to free negotiability                                     | Not prescribed                                 | Not prescribed  |
| <b>Sponsor</b>              | At least one; green shoe mandatory  | At least two  | At least one                                   | At least one  |
| <b>Lock-up period</b>       | To be chosen by the Company (may be exempted); sales by managing shareholders made public | To be chosen by the Company, but ≥ 6 months   | To be chosen by the company or mandated by AEX | ≥ 12 months (on 80% of holdings)  |
| <b>Take-Over Rules</b>      | Not prescribed  | Must comply with the German Take Over Code  | Not prescribed                                 | Not prescribed  |
| <b>Foreign Companies</b>    | Admissible  | Admissible; Their home rules and regulations apply  | Not prescribed                                 | Not prescribed  |

Source: Euronext, Deutsche Borse and 'Euro.NM and the Financing of European Innovative Firms', Laura Bottazzi, University of Bocconi and Marco Da Rin, University of Turin, July 11, 2000.

## **APPENDIX- E**

### THE KNOWLEDGE VALUE INDICATOR MATRIX

#### THE KNOWLEDGE VALUE MATRIX APPROACH TO VALUING HUMAN ASSETS

The starting point for the creation of a practical, pragmatic Knowledge Value Matrix in the identification of those indicators that result in the attainment of Knowledge Value to be applied to an organization's stated mission and strategic objectives. Although these indicators can be supplemented by additional unique indicators that are specifically applicable to only that organization's unique strategic objectives and industry, there exist sufficient common generic indicators that comparability between organizations can be achieved.

The common generic indicators include:

1. Formal Education above minimum education requirements for an individual's present position
2. Continuing education courses which relate to an individual's present position
3. Industry Experience above minimum experience requirements for an individual's present position
4. Position Advancement above normal position advancement time frames to an individual's present position
5. Scope of Organizational Authority and Responsibility above minimum requirements of an individual's present position
6. Lifetime Achievements of an individual other than work related
7. Communication of Collaboration Skills (leadership roles) above minimum requirements of an individual's present position

8. Other General Knowledge Value Enhancement Indicators (positive attitude, determination, work ethic) of an individual

To these common generic indicators can be added specific unique industry or organizational additional indicators, such as specialized knowledge, specialized experience, etc.

The next step in the creation of the Knowledge Value Matrix is the assignment of a set of dollar values to each indicator, both generic and specific. The easiest way to assign a dollar value to an individual's Knowledge Value Indicators is to use their current annual compensation, including salary, bonuses, stock options and other perquisites as a base.

The final step is to assign a series of points to each Knowledge Value Indicator, total these points for all of the indicators and translate these total points into dollar value, using the total compensation assigned to the individual by the organization as a base.

#### CREATION OF A KNOWLEDGE VALUE INDICATOR MATRIX TO VALUE HUMAN ASSETS

$$V = E(s y) (pv)$$

Human Asset Value = Sum of an individual's current salary (s) times # of years until retirement at age 65 (y) times present value factor (pv) [based on current federal reserve discount rate (surrogate for price inflation)] ( to reduce value to the present value of the future capital stream) plus the following percentage additional value indicators applicable to the specific individual being valued:

1. 5% for each additional year of formal education above the minimum education requirements of the individual's present position
2. 1% for each continuing education course taken which relates to the individual's present position

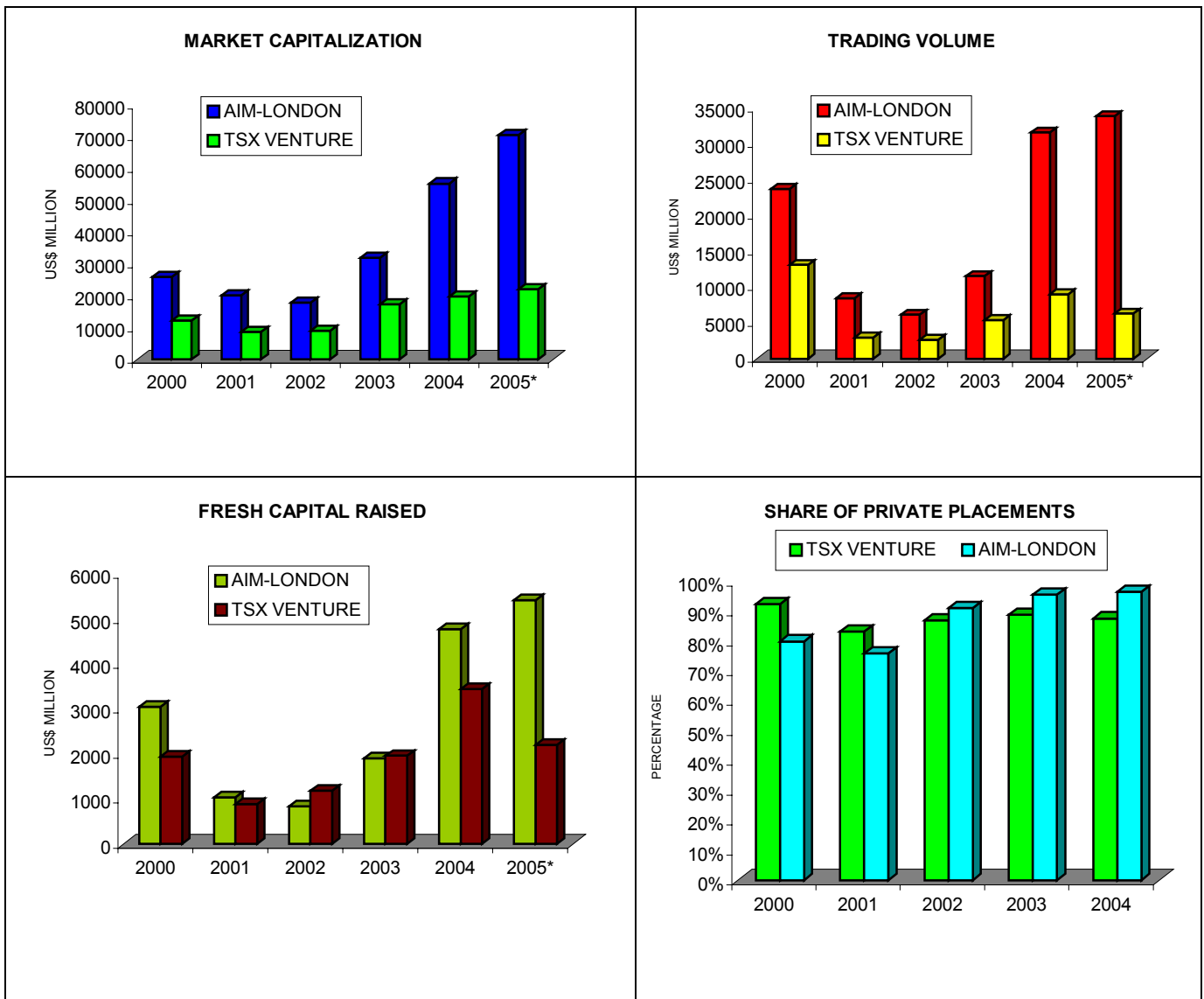
3. 3% for each additional year of industry experience above the minimum experience requirements of the individual's present position
4. 2% for each position advancement above the normal position advancement time frames (time in grade) prior to the individual's attaining his or her present position
5. 5% for each 10% of increased scope of organizational authority and responsibility above the minimum authority and responsibility requirements of the individual's present position
6. Up to 10% for other than work related lifetime achievements and achievements over adversity of an individual
7. Up to 10% for exceptional communication and collaboration skills (leadership roles) above the minimum communication and collaboration skill requirements of the individual's present position
8. Up to 10% for other General Knowledge Value Enhancement Indicators that relate to the individual's creativity and productivity in the individual's present position (positive attitude, determination, work ethic)

Although some of the additional value indicators applicable to the individual are subjective, and the percentages may be subject to academic study and change, their existence detracts only minimally from the substantial benefits of the Knowledge Value Matrix itself.

The mere act of valuing all of the individual employees and independent contractors associated with a given organization, will significantly add value to that organization and to all organizations, will alter hiring and firing decisions and will provide an objective answer to the frequently asked question: *What is the value of Human Assets to organizations.*

## APPENDIX- F

### AIM-London and TSX Venture- How do they compare?

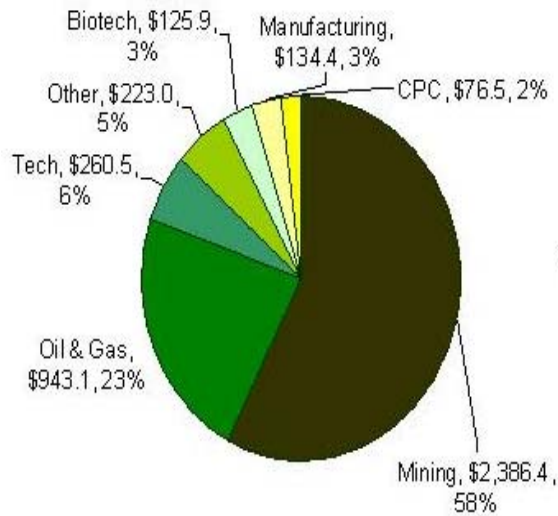


Note: '\*' Figures are up to JUNE 30, 2005  
Sources: TSX Venture Exchange, AIM-London

## APPENDIX- F

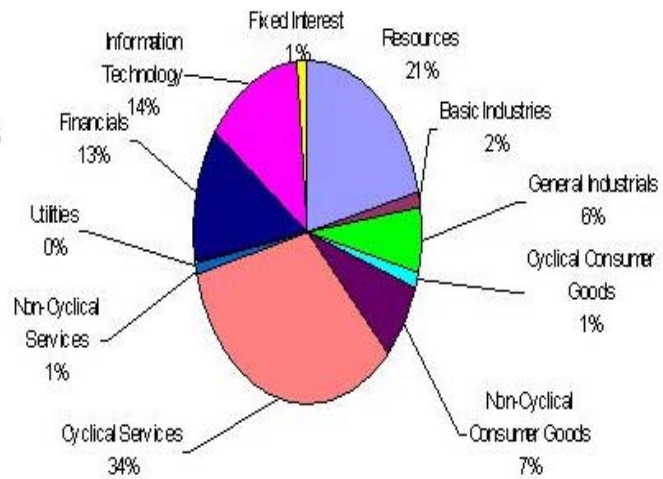
### AIM-London and TSX Venture- How do they compare?

**TSX VENTURE 2004**  
Total Financing- US\$3.4 Billion



*Data compiled as of April 2005*  
*Source: TSX Venture Presentation June 2005*

**AIM-LONDON 2004**  
Total Financing- US\$4.78 Billion



Sources: AIM-London