

**TSX VENTURE EXCHANGE
CAPITAL POOL COMPANIES**

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CAPITAL POOL PROGRAM

Background

The capital pool company program was introduced into Ontario on June 15, 2002. It is administered by the TSX Venture Exchange Inc. and is subject to the *Securities Act* (Ontario) and its rules and regulations.

The CPC Program enables businesses a unique means of sourcing capital and management. It is available to emerging businesses that want to become public at a time when a traditional IPO would not be suitable. The objective of the CPC Program is to facilitate a company becoming public and using the Venture Exchange as a springboard to a more senior listing.

Benefits

As a result of the Qualifying Transaction, the target company becomes or is acquired by a public company. There are numerous benefits to public company status. It offers capital, visibility, an exit strategy for investors and a means of management and employee participation in future growth. A public company is also well suited for follow on investments and using its shares as a "currency" for subsequent acquisitions.

However, there are also drawbacks to being a public company. These include the cost of maintaining the public company status (such as holding annual meetings and increased financial reporting), the distraction of short term share price movement rather than long term financial performance, and increased financial and business disclosure which is available to competitors as well as investors.

In addition to the benefits of public company status, a target company will benefit from a board of directors experienced in raising capital and with an understanding of public markets, a formal market and increased exposure for its shares, a broader investor base including venture capital companies and angel investors and public company status at a lower cost and shorter time frame than an IPO.

CPC PROGRAM POLICIES

Overview

The CPC Program consists of two stages. The first stage is the initial public offering for the CPC and subsequent listing on the Venture Exchange. The second stage is the completion of a Qualifying Transaction which involves the identification and acquisition of a suitable business or assets.

CPC Capital Structures

The shares of the CPC are divided into two categories. "Seed Shares" which are shares issued before the IPO, such as to the promoters or as part of a private placement, and "IPO Shares" which are shares that are issued as part of the IPO. Only a single class of common shares may be issued as Seed Shares and IPO Shares.

The minimum amount of capital raised through the issuance of the Seed Shares is \$100,000. The directors and officers of the CPC (or trusts or holding companies controlled by them) must subscribe for

at least \$100,000 of Seed Shares. Each director and officer of the CPC must subscribe for Seed Shares having an aggregate consideration of at least \$5,000. Seed Share subscriptions by others will only be permitted after the initial \$100,000 has been contributed.

A CPC must raise at least \$200,000 and no more than \$1,900,000 of capital from its IPO. The maximum aggregate capital that a CPC may raise through Seed Shares, IPO shares or by private placements is \$2,000,000.

Options

A CPC may adopt an incentive stock option plan that provides for the grant of stock options to directors, officers, employees and technical consultants for up to 10% of the issued and outstanding shares. The number of stock options that can be granted to any individual director or officer may not exceed 5% of the issued and outstanding shares, and the number of stock options that may be granted to a consultant may not exceed 2% of the issued and outstanding shares.

Escrow

The Venture Exchange imposes escrow restrictions on the shares of certain shareholders. These requirements restrict the free trade of shares and are intended to align the interests of the public shareholders with the interests of related parties and those persons who acquire shares of the CPC at a price less than the IPO price. The escrow requirements vary between 18 and 72 months depending upon the time and price at which the shares were issued and whether the resulting issuer would qualify as a Tier 1 or Tier 2 issuer.

THE QUALIFYING TRANSACTION

General

Once the CPC is listed, it has 24 months to complete a Qualifying Transaction. A "Qualifying Transaction" is a transaction whereby a CPC acquires the target company or its assets, (other than by way of cash) by purchase, amalgamation, merger or arrangement with another company or by other means. The essence of a Qualifying Transaction is that the resulting issuer meets the minimum listing requirements of the Venture Exchange.

Minimum Listing Requirements

The resulting issuer must satisfy the minimum listing requirements of the Venture Exchange (other than public distribution requirements) for the particular industry sector in either Tier 1 or Tier 2.

The minimum listing requirements for a Tier 2 issuer require adequate working capital for 12 months, \$50,000 of pre-tax earnings in the last year (or two of the last three years) and \$500,000 tangible net assets. Failure to complete a Qualifying Transaction within 24 months of the date of listing on the Venture Exchange could result in the delisting of the CPC.

Delisting

If the CPC does not complete its Qualifying Transaction within the 24 months, shareholders who are dealing at arm's length with the CPC will have the choice of winding up the CPC or authorizing its listing on NEX. Prior to April 13, 2005, if a CPC did not carry out its Qualifying Transaction within the prescribed period, all Seed Shares issued at a discount to the IPO price and held by persons not dealing at arm's length with the CPC had to be cancelled. Now if the CPC is moved to NEX these persons can keep such number of Seed Shares is equal to the number of shares they would have obtained if their subscription price had been equal to the IPO price. In practice this will be 50% of their shares.

Issuers that are delisted and do not move to NEX will be required to cancel all Seed Shares held by non-arm's length parties issued at a discount to the IPO price.

Model Transaction

A pro forma transaction model for the establishment of a CPC and completion of a Qualifying Transaction is attached as Appendix A.