

***POLICY STATEMENT TO REGULATION 44-101 RESPECTING
SHORT FORM PROSPECTUS DISTRIBUTIONS***

Securities Act
(R.S.Q., c. V-1.1, s. 274)

PART 1 INTRODUCTION AND DEFINITIONS

1.1. Introduction and Purpose

Regulation 44-101 respecting Short Form Prospectus Distributions (“Regulation 44-101”) sets out the substantive tests for an issuer to qualify to file a prospectus in the form of a short form prospectus. The purpose of Regulation 44-101 is to shorten the time period in which, and streamline the procedures by which, qualified issuers and their selling securityholders can obtain access to the Canadian capital markets through a prospectus offering.

British Columbia, Alberta, Ontario, Manitoba, Nova Scotia and New Brunswick have adopted Regulation 44-101 by way of rule. Saskatchewan and Québec have adopted it by way of regulation. All other jurisdictions have adopted Regulation 44-101 by way of related blanket ruling or order. Each jurisdiction implements Regulation 44-101 by one or more instruments forming part of the law of that jurisdiction (referred to as the “implementing law of the jurisdiction”). Depending on the jurisdiction, the implementing law of the jurisdiction can take the form of regulation, rule, ruling or order.

This Policy Statement to Regulation 44-101 (also referred to as “this Policy Statement” or “this Policy”) provides information relating to the manner in which the provisions of Regulation 44-101 are intended to be interpreted or applied by the provincial and territorial securities regulatory authorities, as well as the exercise of discretion under Regulation 44-101. The Policy Statement to Regulation 41-101 respecting General Prospectus Requirements provides guidance for prospectuses filed under securities legislation including short form prospectuses. Issuers should refer to the Policy Statement to Regulation 41-101 as well as this Policy Statement.

Terms used and not defined in this Policy Statement that are defined or interpreted in Regulation 44-101, Regulation 41-101 or a definition instrument in force in the jurisdiction should be read in accordance with Regulation 44-101, Regulation 41-101 or the definition instrument, unless the context otherwise requires.

To the extent that any provision of this Policy is inconsistent or conflicts with the applicable provisions of Regulation 44-101 and Regulation 41-101 in those jurisdictions that have adopted Regulation 44-101 by way of related blanket ruling or order, the provisions of Regulation 44-101 and Regulation 41-101 prevail over the provisions of this Policy.

1.2. Interrelationship with Local Securities Legislation

Regulation 44-101 and Regulation 41-101, while being the primary instruments regulating short form prospectus distributions, are not exhaustive. Issuers are reminded to refer to the implementing law of the jurisdiction and other securities legislation of the local jurisdiction for additional requirements that may be applicable to the issuer’s short form prospectus distribution.

1.3. Interrelationship with Continuous Disclosure (Regulation 51-102 and Regulation 81-106)

The short form prospectus distribution system established under Regulation 44-101 is based on the continuous disclosure filings of reporting issuers pursuant to Regulation 51-102 or, in the case of an investment fund, Regulation 81-106. Issuers who wish to use the system should be mindful of their ongoing disclosure and filing obligations under the applicable CD rule. Issues raised in the context of a continuous disclosure review may be

taken into consideration by the regulator when determining whether it is in the public interest to refuse to issue a receipt for a short form prospectus. Consequently, unresolved issues may delay or prevent the issuance of a receipt.

1.4. Process for Prospectus Reviews in Multiple Jurisdictions (Policy Statement 11-202)

Policy Statement 11-202 respecting Process for Prospectus Reviews in Multiple Jurisdictions (“Policy Statement 11-202”) describes the process for filing and review of prospectuses, including investment fund and shelf prospectuses, amendments to prospectuses and related materials in multiple jurisdictions. Policy Statement 11-202 represents the means by which an issuer can enjoy the benefits of co-ordinated review by the securities regulatory authorities in the various jurisdictions in which the issuer has filed a prospectus. Under Policy Statement 11-202, one securities regulatory authority acts as the principal regulator for all materials relating to a filer.

1.5. Interrelationship with Shelf Distributions (Regulation 44-102)

Issuers qualified under Regulation 44-101 to file a prospectus in the form of a short form prospectus and their securityholders can distribute securities under a short form prospectus using the shelf distribution procedures under Regulation 44-102. The Policy Statement to Regulation 44-102 explains that the distribution of securities under the shelf system is governed by the requirements and procedures of Regulation 44-101 and securities legislation, except as supplemented or varied by Regulation 44-102. Therefore, issuers qualified to file a prospectus in the form of a short form prospectus and selling securityholders of those issuers that wish to distribute securities under the shelf system should have regard to Regulation 44-101 and this Policy first, and then refer to Regulation 44-102 and the accompanying policy for any additional requirements.

1.6. Interrelationship with PREP Procedures (Regulation 44-103)

Regulation 44-103 respecting Post-Receipt Pricing contains the post-receipt pricing procedures (the “PREP procedures”). All issuers and selling securityholders can use the PREP procedures of Regulation 44-103 to distribute securities, other than rights under a rights offering. Issuers and selling securityholders that wish to distribute securities under a prospectus in the form of a short form prospectus using the PREP procedures should have regard to Regulation 44-101 and this Policy first, and then refer to Regulation 44-103 and the accompanying policy for any additional requirements.

1.7. Definitions

(1) **Approved rating** - Cash settled derivatives are covenant-based instruments that may be rated on a similar basis to debt securities. In addition to the creditworthiness of the issuer, other factors such as the continued subsistence of the underlying interest or the volatility of the price, value or level of the underlying interest may be reflected in the rating analysis for cash settled derivatives. These additional factors may be described by a rating agency by way of a superscript or other notation to a rating. The inclusion of such notations for covenant-based instruments that otherwise fall within one of the categories of an approved rating does not detract from the rating being considered to be an approved rating for the purposes of Regulation 44-101.

A rating agency may also restrict its rating to securities of an issuer that are denominated in local currency. This restriction may be denoted, for example, by the designation “LC”. The inclusion of such a designation in a rating that would otherwise fall within one of the categories of an approved rating does not detract from the rating being considered to be an approved rating for the purposes of Regulation 44-101.

(2) **Asset-backed security** - Issuers should refer to section 1.3(1) of the Policy Statement to Regulation 41-101.

(3) **Current AIF** - An issuer’s AIF filed under the applicable CD rule is a “current AIF” until the issuer files an AIF for the next financial year, or is required by the applicable CD rule to have filed its annual financial statements for the next financial year. If an issuer

fails to file a new AIF by the filing deadline under the applicable CD rule for its annual financial statements, it will not have a current AIF and will not qualify under Regulation 44-101 to file a prospectus in the form of a short form prospectus. If an issuer files a revised or amended AIF for the same financial year as an AIF that has previously been filed, the most recently filed AIF will be the issuer's current AIF.

An issuer that is a *venture issuer* for the purpose of Regulation 51-102, and certain investment funds, may have no obligation under the applicable CD rule to file an AIF. However, to qualify under Regulation 44-101 to file a prospectus in the form of a short form prospectus, that issuer will be required to file an AIF in accordance with the applicable CD rule so as to have a "current AIF". A current AIF filed by an issuer that is a venture issuer for the purposes of Regulation 51-102 can be expected to expire later than a non-venture issuer's AIF, due to the fact that the deadlines for filing annual financial statements under Regulation 51-102 are later for venture issuers than for other issuers.

(4) **Current annual financial statements** - An issuer's comparative annual financial statements filed under the applicable CD rule, together with the accompanying auditor's report, are "current annual financial statements" until the issuer files, or is required under the applicable CD rule to have filed, its comparative annual financial statements for the next financial year. If an issuer fails to file its comparative annual financial statements by the filing deadline under the applicable CD rule, it will not have current annual financial statements and will not be qualified under Regulation 44-101 to file a prospectus in the form of a short form prospectus.

Where there has been a change of auditor and the new auditor has not audited the comparative period, the report of the former auditor on the comparative period must be included in the prospectus. The issuer may file the report of the former auditor on the comparative period with the annual financial statements that are being incorporated by reference into the short form prospectus, and clearly incorporate by reference the former auditor's report in addition to the new auditor's report. Alternatively, the issuer can incorporate by reference into the short form prospectus its comparative financial statements filed for the previous year, including the audit reports thereon.

(5) **Successor Issuer** - The definition of "successor issuer" requires that the issuer exist "as a result of a restructuring transaction". In the case of an amalgamation, the amalgamated corporation is regarded by the securities regulatory authorities as existing "as a result of a restructuring transaction". Also, if a corporation is incorporated for the sole purpose of facilitating a restructuring transaction, the securities regulatory authorities regard the new corporation as "existing as a result of a restructuring transaction" despite the fact that the corporation may have been incorporated before the restructuring transaction. The definition of "successor issuer" also contains an exclusion applicable to divestitures. For example, an issuer may carry out a restructuring transaction that results in the distribution to securityholders of a portion of its business or the transfer of a portion of its business to another issuer. In that case, the entity that carries on the portion of the business that was "spun-off" is not a successor issuer within the meaning of the definition.

PART 2 QUALIFICATION TO FILE A PROSPECTUS IN THE FORM OF A SHORT FORM PROSPECTUS

2.1. Basic Qualification Criteria - Reporting Issuers with Equity Securities Listed on a Short Form Eligible Exchange (Section 2.2 of Regulation 44-101)

(1) Section 2.2 of Regulation 44-101 provides that an issuer with equity securities listed and posted for trading on a short form eligible exchange and that is up-to-date in its periodic and timely disclosure filings in all jurisdictions in which it is a reporting issuer satisfies the criteria for being qualified to file a prospectus in the form of a short form prospectus if it meets the other general qualification criteria. In addition to the listing requirement, the issuer may not be an issuer whose operations have ceased or whose principal asset is its exchange listing. The purpose of this requirement is to ensure that

eligible issuers have an operating business in respect of which the issuer must provide current disclosure through application of the applicable CD rule.

The basic qualification criteria are structured to allow most Canadian listed issuers to participate in the expedited offering system created by Regulation 44-101, provided their public disclosure record provides investors with satisfactory and sufficient information about the issuer and its business, operations or capital. The securities regulatory authorities believe that it is in the public interest to allow an issuer's public disclosure to be incorporated into a short form prospectus, provided that the resulting prospectus provides prospective investors with full, true and plain disclosure about the issuer and the securities being distributed. The securities regulatory authority may not be prepared to issue a receipt for a short form prospectus if the prospectus, together with the documents incorporated by reference, fails to provide such full, true and plain disclosure and, in Québec, disclosure of material facts likely to affect the value or the market price of the securities to be distributed. In such circumstances, the securities regulatory authority may require, in the public interest, that the issuer utilize the long form prospectus regime. In addition, the securities regulatory authority may also require that the issuer utilize the long form prospectus regime if the offering is, in essence, an initial public offering by a business or if:

(a) the offering is for the purpose of financing a dormant or inactive issuer whether or not the issuer intends to use the proceeds to reactivate the issuer or to acquire an active business; or

(b) the offering is for the purpose of financing a material undertaking that would constitute a material departure from the business or operations of the issuer as at the date of its current annual financial statements and current AIF.

(2) A new reporting issuer or a successor issuer may satisfy the criteria to have current annual financial statements or a current AIF by filing its comparative annual financial statements or an AIF, respectively, in accordance with Regulation 51-102 or Regulation 81-106, as applicable, for its most recently completed financial year. It is not necessary that the issuer be required by the applicable CD rule to have filed such documents. An issuer may voluntarily choose to file either of these documents in accordance with the applicable CD rule for the purposes of satisfying the eligibility criteria under Regulation 44-101.

Alternatively, an issuer may rely on the exemption from the requirement to file such documents in section 2.7 of Regulation 44-101. That section provides an exemption from the current AIF and current annual financial statement requirements for new reporting issuers and successor issuers who have not yet been required to file such documents and who have filed a prospectus or information circular containing disclosure which would have been included in such documents had they been filed under the applicable CD rule.

(3) An issuer need not have filed all of its continuous disclosure filings in the local jurisdiction in order to be qualified to file a short form prospectus, but under sections 4.1 and 4.2 of Regulation 44-101 it will be required to file in the local jurisdiction all documents incorporated by reference into the short form prospectus no later than the date of filing the preliminary short form prospectus.

2.2. Alternative Qualification Criteria - Issuers that are Not Listed (Sections 2.3, 2.4, 2.5 and 2.6 of Regulation 44-101)

Issuers that do not have equity securities listed and posted for trading on a short form eligible exchange in Canada may nonetheless be qualified to file a prospectus in the form of a short form prospectus under the following alternative qualification criteria of Regulation 44-101:

1. Section 2.3, which applies to issuers which are reporting issuers in at least one jurisdiction, and who are intending to issue non-convertible securities with a provisional approved rating.

2. Section 2.4, which applies to issuers of non-convertible debt securities, non-convertible preferred shares or non-convertible cash settled derivatives, if another person that satisfies prescribed criteria provides full and unconditional credit support for the payments to be made by the issuer of the securities.

3. Section 2.5, which applies to issuers of convertible debt securities or convertible preferred shares, if the securities are convertible into securities of a credit supporter that satisfies prescribed criteria and provides full and unconditional credit support for the payments to be made by the issuer of the securities.

4. Section 2.6, which applies to issuers of asset-backed securities.

Under sections 2.4, 2.5 and 2.6 of Regulation 44-101, an issuer is not required to be a reporting issuer in any jurisdiction in order to qualify to file a prospectus in the form of a short form prospectus. Section 2.3 requires the issuer to be a reporting issuer in at least one jurisdiction of Canada.

2.3. Alternative Qualification Criteria - Issuers of Guaranteed Debt Securities, Preferred Shares and Cash Settled Derivatives (Sections 2.4 and 2.5 of Regulation 44-101)

Sections 2.4 and 2.5 of Regulation 44-101 allow an issuer to qualify to file a prospectus in the form of a short form prospectus based on full and unconditional credit support, which may take the form of a guarantee or alternative credit support. The securities regulatory authorities are of the view that a person that provides the full and unconditional guarantee or alternative credit support is not, simply by providing that guarantee or alternative credit support, issuing a security.

2.4. Alternative Qualification Criteria - Issuers of Asset-Backed Securities (Section 2.6 of Regulation 44-101)

(1) In order to be qualified to file a prospectus in the form of a short form prospectus under section 2.6 of Regulation 44-101, an issuer must have been established in connection with a distribution of asset-backed securities. Ordinarily, asset-backed securities are issued by special purpose issuers established for the sole purpose of purchasing financial assets with the proceeds of one or more distributions of these securities. This ensures that the credit and performance attributes of the asset-backed securities are dependent on the underlying financial assets, rather than upon concerns relating to ancillary business activities and their attendant risks. Qualification to file a prospectus in the form of a short form prospectus under section 2.6 of Regulation 44-101 has been limited to special purpose issuers to avoid the possibility that an otherwise ineligible issuer would structure securities falling within the definition of "asset-backed security".

(2) The qualification criteria for a distribution of asset-backed securities under a prospectus in the form of a short form prospectus are intended to provide sufficient flexibility to accommodate future developments. To qualify under section 2.6 of Regulation 44-101, the securities to be distributed must satisfy the following two criteria:

1. First, the payment obligations on the securities must be serviced primarily by the cash flows of a pool of discrete liquidating assets such as accounts receivable, instalment sales contracts, leases or other assets that by their terms convert into cash within a specified or determinable period of time.

2. Second, the securities must (i) receive an approved rating on a provisional basis, (ii) not have been the subject of an announcement regarding a downgrade to a rating that is not an approved rating, and (iii) not have received a provisional or final rating lower than an approved rating from any approved rating organization.

The qualification criteria do not distinguish between pass-through (i.e., equity) and pay-through (i.e., debt) asset-backed securities. Consequently, both pay-through and pass-

through securities, as well as residual or subordinate interests, may be distributed under a prospectus in the form of a short form prospectus if all other applicable requirements are met.

2.5. Timely and Periodic Disclosure Documents

To be qualified to file a short form prospectus under sections 2.2 and 2.3 of Regulation 44-101, an issuer must file with the securities regulatory authority in each jurisdiction in which it is a reporting issuer all periodic and timely disclosure documents that it is required to have filed in that jurisdiction under applicable securities legislation, pursuant to an order issued by the securities regulatory authority, or pursuant to an undertaking to the securities regulatory authority. Similarly, a credit supporter must satisfy this qualification criterion for an issuer to be qualified to file a short form prospectus under sections 2.4 and 2.5 of Regulation 44-101.

This qualification criterion applies to all disclosure documents including, if applicable, a disclosure document the issuer or credit supporter (i) has undertaken to file with a provincial or territorial securities regulatory authority, (ii) must file pursuant to a condition in a written order or decision granting exemptive relief to the issuer or credit supporter from a requirement to file periodic and timely disclosure documents, (iii) must file pursuant to a condition in securities legislation exempting the issuer or credit supporter from a requirement to file periodic and timely disclosure documents, and (iv) has represented that it will file pursuant to a representation in a written order or decision granting exemptive relief to the issuer or credit supporter from a requirement to file periodic and timely disclosure documents. These disclosure documents must be incorporated by reference into a short form prospectus pursuant to paragraph 9 or 10 of subsection 11.1(1) of Form 44-101F1.

2.6. Notice Declaring Intention

Subsection 2.8(1) of Regulation 44-101 provides that an issuer is not qualified to file a short form prospectus under Part 2 of Regulation 44-101 unless it has filed, with its notice regulator, a notice declaring its intention to be qualified to file a short form prospectus under Regulation 44-101. This notice must be filed in substantially the form of Appendix A of Regulation 44-101 at least 10 business days prior to the issuer filing its first preliminary short form prospectus. This is a new requirement that came into effect on December 30, 2005. The securities regulatory authorities expect that this notice will be a one-time filing for issuers that intend to be participants in the short form prospectus distribution system established under Regulation 44-101. Subsection 2.8(2) provides that this notice is operative until withdrawn. Though the notice must be filed with the notice regulator, an issuer may voluntarily file the notice with any other securities regulatory authority or regulator of a jurisdiction of Canada.

Subsection 2.8(4) of Regulation 44-101 is a transitional provision that has the effect of deeming issuers that, as of December 29, 2005, have a current AIF under the pre-December 30, 2005 short form prospectus distribution system to have filed this notice and no additional filing is required to satisfy the notice requirements set out in subsection 2.8(1) of Regulation 44-101.

PART 3 FILING AND RECEIPTING OF SHORT FORM PROSPECTUS

3.1. Previously filed documents

Sections 4.1 and 4.2 of Regulation 44-101 require the filing of specified documents that have not been previously filed. Issuers that are relying on previous filing of these specified documents are reminded that the documents should have been filed on the issuer's filer profile for SEDAR.

3.2. Confidential Material Change Reports

Confidential material change reports cannot be incorporated by reference into a short form prospectus. Issuers should refer to section 3.2 of the Policy Statement to Regulation 41-101 for further guidance.

3.3. Supporting Documents

Issuers should refer to section 3.3 of the Policy Statement to Regulation 41-101.

3.4. Experts' Consent

Issuers are reminded that under section 10.1 of Regulation 41-101 an auditor's consent is required to be filed for audited financial statements that are included as part of other continuous disclosure filings that are incorporated by reference into a short form prospectus. For example, a separate auditor's consent is required for each set of audited financial statements that are included as part of a business acquisition report or an information circular incorporated by reference into a short form prospectus. Issuers should also refer to section 3.4 of the Policy Statement to Regulation 41-101 for further guidance.

3.5. Undertaking in Respect of Credit Supporter Disclosure

Under subparagraph 4.2(a)(ix) of Regulation 44-101, an issuer must file an undertaking to file the periodic and timely disclosure of a credit supporter. For credit supporters that are reporting issuers with a current AIF, the undertaking will likely be to continue to file the documents it is required to file under Regulation 51-102. For credit supporters registered under the 1934 Act, the undertaking will likely be to file the types of documents that would be required to be incorporated by reference into a Form S-3 or Form F-3 registration statement. For other credit supporters, the types of documents to be filed pursuant to the undertaking will be determined through discussions with the regulators on a case-by-case basis.

If an issuer, a parent credit supporter, and a subsidiary credit supporter satisfy the conditions of the exemption in item 13.3 of Form 44-101F1, an undertaking may provide that the subsidiary credit supporter will file periodic and timely disclosure if the issuer and the credit supporters no longer satisfy the conditions of the exemption in that item.

If an issuer and a credit supporter satisfy the conditions of the exemption in item 13.4 of Form 44-101F1, an undertaking may provide that the credit supporter will file periodic and timely disclosure if the issuer and the credit supporter no longer satisfy the conditions of the exemption in that item.

For the purposes of such an undertaking, references to disclosure included in the short form prospectus should be replaced with references to the issuer or parent credit supporter's continuous disclosure filings. For example, if an issuer and subsidiary credit supporter(s) plan to continue to satisfy the conditions of the exemption in item 13.4 of Form 44-101F1 for continuous disclosure filings, the undertaking should provide that the issuer will file with its consolidated financial statements,

(a) a statement that the financial results of the credit supporter(s) are included in the consolidated financial results of the issuer if

- (i) the issuer continues to have limited independent operations, and

(ii) the impact of any subsidiaries of the issuer on a combined basis, excluding the credit supporter(s) but including any subsidiaries of the credit supporter(s) that are not themselves credit supporters, on the consolidated financial statements of the issuer continues to be minor, or

(b) for any periods covered by issuer's consolidated financial statements, consolidating summary financial information for the issuer presented in the format set out in subparagraph 13.4(e)(ii) of Form 44-101F1.

3.6. Amendments and Incorporation by Reference of Subsequently Filed Material Change Reports

The requirement in Regulation 41-101 and securities legislation for the filing of an amendment to a preliminary prospectus and prospectus is not satisfied by the incorporation by reference in a preliminary short form prospectus or a short form prospectus of a subsequently filed material change report. Issuers should refer to the Policy Statement to Regulation 41-101 for further guidance regarding amendments.

3.7. Short Form Prospectus Review

No target time frame applies to the review of a short form prospectus of an issuer if the issuer has not elected to use the process set out in Policy Statement 11-202.

3.8. Review time frames for "equity line" short form prospectuses

An issuer that is eligible to use the short form prospectus system may file a preliminary short form prospectus relating to the distribution of securities in connection with an "equity line" financing. Under an equity line arrangement, the issuer typically enters into an agreement with one or more purchasers which provides that, over a certain term, the issuer may from time to time require the purchasers to subscribe for a certain number of securities of the issuer usually at a discount from the market price. Equity line financing raises a number of important policy issues relating to the appropriate treatment of such offerings under existing securities law. Accordingly, these prospectuses will generally be reviewed within the time periods applicable to a long form prospectus.

3.9. Registration Requirements

Issuers should refer to section 3.13 of the Policy Statement to Regulation 41-101 for further guidance.

PART 4 CONTENT OF SHORT FORM PROSPECTUS

4.1. Prospectus Liability

Nothing in the short form prospectus regime established by Regulation 44-101 is intended to provide relief from liability arising under the provisions of securities legislation of any jurisdiction in which a short form prospectus is filed if the short form prospectus contains an untrue statement of a material fact or omits to state a material fact that is required to be stated therein or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

4.2. Style of Short Form Prospectus

Securities legislation requires that a short form prospectus contain "full, true and plain" disclosure of the securities to be distributed. Issuers should apply plain language principles when they prepare a short form prospectus, including:

- using short sentences;
- using definite, everyday language;
- using the active voice;
- avoiding superfluous words;

- organizing the document into clear, concise sections, paragraphs and sentences;
- avoiding jargon;
- using personal pronouns to speak directly to the reader;
- avoiding reliance on glossaries and defined terms unless it facilitates understanding of the disclosure;
- avoiding vague boilerplate wording;
- avoiding abstract terms by using more concrete terms or examples;
- avoiding multiple negatives;
- using technical terms only when necessary and explaining those terms;
- using charts, tables and examples where it makes disclosure easier to understand.

Question and answer and bullet point formats are consistent with the disclosure requirements of Regulation 44-101.

4.3. Pricing Disclosure

(1) If the offering price or the number of securities being distributed, or an estimate of the range of the offering price or the number of securities being distributed, has been publicly disclosed in a jurisdiction or a foreign jurisdiction as of the date of the preliminary short form prospectus, item 1.7.1 of Form 44-101F1 requires the issuer to disclose that information in the preliminary short form prospectus. For example, if an issuer has previously disclosed this information in a public filing or a press release, in a foreign jurisdiction, the information must also be disclosed in the preliminary short form prospectus. If the issuer discloses this information in the preliminary short form prospectus, we will not consider a difference between this information and the actual offering price or number of securities being distributed to be, in itself, a material adverse change for which the issuer must file an amended preliminary short form prospectus.

(2) No disclosure is required under item 1.7.1 of Form 44-101F1 if the offering price or size of the offering has not been disclosed as of the date of the preliminary short form prospectus. However, given the materiality of pricing or offering size information, subsequent disclosure of this information on a selective basis could constitute conduct that is prejudicial to the public interest.

4.4. Principal Purposes – Generally

(1) Section 4.2 of Form 44-101F1 requires disclosure of each of the principal purposes for which the net proceeds will be used by an issuer. If an issuer has negative operating cash flow in its most recently completed financial year for which financial statements have been included in the short form prospectus, the issuer should prominently disclose that fact in the use of proceeds section of the short form prospectus. The issuer should also disclose whether, and if so, to what extent, the proceeds of the distribution will be used to fund any anticipated negative operating cash flow in future periods. An issuer should disclose negative operating cash flow as a risk factor under subsection 17.1(1) of Form 44-101F1 or item 5.2 in Regulation 51-102F2.

(2) For the purposes of the disclosure required under section 4.2 of Form 44-101F1, the phrase “for general corporate purposes” is not generally sufficient.

4.5. Distribution of Asset-backed Securities

Item 7.3 of Form 44-101F1 specifies additional disclosure that applies to distributions of asset-backed securities. Disclosure for a special purpose issuer of asset-backed securities will generally explain:

- the nature, performance and servicing of the underlying pool of financial assets;
- the structure of the securities and dedicated cash flows; and
- any third party or internal support arrangements established to protect holders of the asset-backed securities from losses associated with non-performance of the financial assets or disruptions in payment.

The nature and extent of required disclosure may vary depending on the type and attributes of the underlying pool and the contractual arrangements through which holders of the asset-backed securities take their interest in such assets.

An issuer of asset-backed securities should consider these factors in preparing its short form prospectus:

(a) The extent of disclosure respecting an issuer will depend on the extent of the issuer's on-going involvement in the conversion of the assets comprising the pool to cash and the distribution of cash to securityholders; this involvement may, in turn, vary dramatically depending on the type, quality and attributes of the assets comprising the pool and on the overall structure of the transaction.

(b) Requested disclosure respecting the business and affairs of the issuer should be interpreted to apply to the financial assets underlying the asset-backed securities.

(c) Disclosure respecting the originator or the seller of the underlying financial assets will be relevant to investors in the asset-backed securities particularly in circumstances where the originator or seller has an on-going relationship with the financial assets comprising the pool. For example, if asset-backed securities are serviced with the cash flows from a revolving pool of receivables, an evaluation of the nature and reliability of the future origination or the future sales of underlying assets by the seller to or through the issuer may be a critical aspect of an investor's investment decision.

To address this, the focus of disclosure respecting an originator or seller of the underlying financial assets should deal with whether there are current circumstances that indicate that the originator or seller will not generate adequate assets in the future to avoid an early liquidation of the pool and, correspondingly, an early payment of the asset-backed securities. Summary historical financial information respecting the originator or seller will ordinarily be adequate to satisfy the disclosure requirements applicable to the originator or seller in circumstances where the originator or seller has an ongoing relationship with the assets comprising the pool.

Subsection 7.3(5) of Form 44-101F1 requires issuers of asset-backed securities to describe any person who originated, sold or deposited a material portion of the financial assets comprising the pool, irrespective of whether the person has an on-going relationship with the assets comprising the pool. The securities regulatory authorities consider 33 ⅓ % of the dollar value of the financial assets comprising the pool to be a material portion in this context.

4.6. Distribution of Derivatives

Section 7.4 of Form 44-101F1 specifies additional disclosure applicable to distributions of derivatives. This prescribed disclosure is formulated in general terms for issuers to customize appropriately in particular circumstances.

4.7. Underlying Securities

If securities being distributed are convertible into or exchangeable for other securities, or are a derivative of, or otherwise linked to, other securities, a description of the material attributes of the underlying securities would generally be necessary to meet the requirement of securities legislation that a prospectus contain full, true and plain disclosure of all material facts relating to the securities being distributed.

4.8. Restricted Securities

Section 7.7 of Form 44-101F1 specifies additional disclosure applicable to restricted securities, including a detailed description of any significant provisions under applicable corporate and securities law that do not apply to the holders of the restricted securities but do apply to the holders of another class of equity securities. An example of such provisions would be rights under takeover bids.

4.9. Recent and Proposed Acquisitions

(1) Subsection 10.2(2) of Form 44-101F1 requires prescribed disclosure of a proposed acquisition that has progressed to a state “where a reasonable person would believe that the likelihood of the acquisition being completed is high” and that would, if completed on the date of the short form prospectus, be a significant acquisition for the purposes of Part 8 of Regulation 51-102. Our interpretation of the phrase “where a reasonable person would believe that the likelihood of the acquisition being completed is high” is consistent with the concept of a likely contingency in CICA Handbook section 3290. It is our view that the following factors may be relevant in determining whether the likelihood of an acquisition being completed is high:

- (a) whether the acquisition has been publicly announced;
- (b) whether the acquisition is the subject of an executed agreement; and
- (c) the nature of conditions to the completion of the acquisition including any material third party consents required.

The test of whether a proposed acquisition “has progressed to a state where a reasonable person would believe that the likelihood of the acquisition being completed is high” is an objective, rather than subjective, test in that the question turns on what a “reasonable person” would believe. It is not sufficient for an officer of an issuer to determine that he or she personally believes that the likelihood of the acquisition being completed is or is not high. The officer must form an opinion as to what a reasonable person would believe in the circumstances. In the event of a dispute, an objective test requires an adjudicator to decide whether a reasonable person would believe in the circumstances that the likelihood of an acquisition being completed was high. By contrast, if the disclosure requirement involved a subjective test, the adjudicator would assess an individual’s credibility and decide whether the personal opinion of the individual as to whether the likelihood of the acquisition being completed was high was an honestly held opinion. Formulating the disclosure requirement using an objective test rather than a subjective test strengthens the basis upon which the regulator may object to an issuer’s application of the test in particular circumstances.

(2) Subsection 10.2(3) of Form 44-101F1 requires inclusion of the financial statements or other information relating to certain acquisitions or proposed acquisitions if the inclusion of the financial statements or other information is necessary in order for the short form prospectus to contain full, true and plain disclosure of all material facts relating to the securities being distributed. We generally presume that the inclusion of financial statements or other information is required for all acquisitions that are, or would be, significant under

Part 8 of Regulation 51-102. Issuers can rebut this presumption if they can provide evidence that the financial statements or other information are not required for full, true and plain disclosure.

Subsection 10.2(4) of Form 44-101F1 provides that issuers must satisfy the requirements of subsection 10.2(3) of Form 44-101F1 by including either:

- (i) the financial statements or other information that would be required by Part 8 of Regulation 51-102; or
- (ii) satisfactory alternative financial statements or other information.

Satisfactory alternative financial statements or other information may be provided to satisfy the requirements of subsection 10.2(3) when the financial statements or other information that would be required by Part 8 of Regulation 51-102 relate to a financial year ended within 90 days before the date of the prospectus or an interim period ended within 60 days before the date of the prospectus for issuers that are venture issuers, and 45 days for issuers that are not venture issuers. In these circumstances, we believe that satisfactory alternative financial statements or other information would not have to include any financial statements or other information for the acquisition or probable acquisition related to:

- (a) a financial year ended within 90 days before the date of the short form prospectus; or
- (b) an interim period ended within 60 days before the date of the short form prospectus for issuers that are venture issuers, and 45 days for issuers that are not venture issuers.

An example of satisfactory alternative financial statements or other information that we will generally find acceptable would be:

- (c) comparative annual financial statements or other information for the acquisition or probable acquisition for at least the number of financial years as would be required under Part 8 of Regulation 51-102 that ended more than 90 days before the date of the short form prospectus, audited for the most recently completed financial period in accordance with Regulation 52-107, and reviewed for the comparative period in accordance with section 4.3 of Regulation 44-101;
- (d) comparative interim financial statements or other information for the acquisition or probable acquisition for any interim period ended subsequent to the latest annual financial statements included in the short form prospectus and more than 60 days before the date of the short form prospectus for issuers that are venture issuers, and 45 days for issuers that are not venture issuers reviewed in accordance with section 4.3 of Regulation 44-101; and
- (e) pro forma financial statements or other information required under Part 8 of Regulation 51-102.

If the issuer intends to include financial statements as set out in the example above as satisfactory alternative financial statements or other information, we ask that this be highlighted in the cover letter to the prospectus. If the issuer does not intend to include financial statements or other information, or intends to file financial statements or other information that are different from those set out above, we encourage the utilization of pre-filing procedures.

- (3) When an issuer acquires a business or related businesses that has itself recently acquired another business or related businesses (an "indirect acquisition"), the issuer should consider whether prospectus disclosure about the indirect acquisition, including historical financial statements, is necessary to satisfy the requirement that the prospectus contain full,

true and plain disclosure of all material facts relating to the securities being distributed. In making this determination, the issuer should consider the following factors:

- if the indirect acquisition would meet any of the significance tests in Part 8 of Regulation 51-102 when the issuer applies each of those tests to its proportionate interest in the indirect acquisition of the business; and
- if the amount of time between the separate acquisitions is such that the effect of the first acquisition is not adequately reflected in the results of the business or related businesses the issuer is acquiring.

(4) Subsection 10.2(3) discusses financial statements or other information for the completed or proposed acquisition of the business or related businesses. This “other information” is intended to capture the financial information disclosures required under Part 8 of Regulation 51-102 other than financial statements. An example of “other information” would include the operating statements, property descriptions, production volumes and reserves disclosures described under section 8.10 of Regulation 51-102.

4.10. Updated pro forma financial statements to date of prospectus

In addition to the pro forma financial statements for completed acquisitions that are required to be included in a business acquisition report incorporated by reference into a prospectus under Item 11 of Form 44-101F1, an issuer may include a set of pro forma financial statement prepared as at the date of the prospectus.

4.11. General Financial Statement Requirements

A reporting issuer is required under the applicable CD rule to file its annual financial statements and related MD&A 90 days after year end (or 120 days if the issuer is a *venture issuer* as defined in Regulation 51-102). Interim financial statements and related MD&A must be filed 45 days after the last day of an interim period (or 60 days for a venture issuer). The financial statement requirements in Regulation 44-101 are based on these continuous disclosure reporting time frames and do not impose accelerated filing deadlines for a reporting issuer's financial statements. However, to the extent an issuer has filed financial statements in advance of the deadline for doing so, those financial statements must be incorporated by reference in the short form prospectus. We are of the view that directors of an issuer should endeavor to consider and approve financial statements in a timely manner and should not delay the approval and filing of the financial statements for the purpose of avoiding their inclusion in a short form prospectus. Once the financial statements have been approved, they should be filed as soon as possible.

4.12. Credit Supporter Disclosure

In addition to the issuer's documents required to be incorporated by reference under sections 11.1 and 11.2 of Form 44-101F1 and the issuer's earnings coverage ratios required to be included under Item 6 of Form 44-101F1, a short form prospectus must include, under section 12.1 of Form 44-101F1, disclosure about any credit supporters that have provided a guarantee or alternative credit support for all or substantially all of the payments to be made under the securities being distributed. Accordingly, disclosure about a credit supporter may be required even if the credit supporter has not provided full and unconditional credit support.

4.13. Exemptions for Certain Issues of Guaranteed Securities

Requiring disclosure about the issuer and any applicable credit supporters in a short form prospectus may result in unnecessary disclosure in some instances. Item 13 of Form 44-101F1 provides exemptions from the requirement to include both issuer and credit supporter disclosure where such disclosure is not necessary to ensure that the short form prospectus includes full, true and plain disclosure of all material facts concerning the securities to be distributed.

The exemptions in Item 13 of Form 44-101F1 are based on the principle that, in these instances, investors will generally require either issuer disclosure or credit supporter disclosure to make an informed investment decision. The exemptions set out in Item 13 of

Form 44-101F1 are not intended to be comprehensive and issuers may apply for exemptive relief from the requirement to provide both issuer and credit supporter disclosure, as appropriate.

4.14 Previously Disclosed Material Forward-Looking Information

If an issuer, at the time it files a short form prospectus,

1. has previously disclosed to the public material forward-looking information for a period that is not yet complete;
2. is aware of events and circumstances that are reasonably likely to cause actual results to differ materially from the material forward-looking information; and
3. has not filed an MD&A or MD&A supplement with the securities regulatory authorities that discusses those events and circumstances and expected differences from the material forward-looking information, as required by section 5.8 of Regulation 51-102,

the issuer should discuss those events and circumstances, and the expected differences from the material forward-looking information, in the short form prospectus.

PART 5 CERTIFICATES

- 5.1. Issuers should refer to section 2.6 of the Policy Statement to Regulation 41-101.