

POLICY STATEMENT TO REGULATION 45-101 RESPECTING RIGHTS OFFERINGS

**PART 1
PROSPECTUS EXEMPT OFFERINGS**

1.1. Notice Under Rights Offering Prospectus Exemption

The reviewing authority will consider the following as the notice required to be sent under securities legislation in order to rely on the rights offering prospectus exemption:

1. A rights offering circular in draft form.
2. The information required to be sent under clause 10.1(1)(b) and subsection 10.1(2) of the Regulation in order to rely on the exemption provided in subsection 10.1(1) of the Regulation.

1.2. Objection to Use of Prospectus Exemption

(1) The reviewing authority may exercise its statutory power to object to a rights offering being made in reliance on the rights offering prospectus exemption if

(a) the rights offering is for the purpose of financing the reactivation of a dormant or inactive issuer;

(b) the rights 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 last annual financial statements that have been filed under securities legislation;

(c) excessive consideration is payable to the managing dealer, to any soliciting dealer or for a stand-by commitment; or

(d) the reviewing authority believes that, in the circumstances, reliance upon the exemption is not otherwise appropriate.

(2) Despite clause 1.2(1)(a), the regulator in British Columbia will generally not object to the use of the rights offering prospectus exemption solely on the basis that the proceeds of the rights offering will be used to finance a reactivation. In exercising its discretion, the regulator will consider the following factors:

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(a) the amount of funds to be raised, which is generally expected to be less than:

(i) \$500,000, if a rights offering complies with the condition in paragraph 1 of section 2.2 of the Regulation ("2.2-1"); and

(ii) \$250,000, if the increase in the outstanding securities of the class to be issued on exercise of the rights will not exceed 50% of the outstanding securities of that class immediately before the rights offering (in which case the regulator is prepared to consider granting an exemption from the 25% limit in 2.2-1);

(b) if the rights offering circular, together with other records required to be delivered, contains full, true and plain disclosure of all material facts relating to the reactivation; and

(c) the extent to which shareholders of the issuer, other than management and insiders, can reasonably participate in the rights offering (generally the regulator will not object if the public shareholders able to participate in the offering constitute more than 50% of all shareholders).

1.3. Calculation of Number of Securities

(1) In calculating the number of outstanding securities for purposes of paragraph 1 of section 2.2 of the Regulation the Canadian securities regulatory authorities are of the view that

(a) if

x = the number of securities of the class of the securities that may be or have been issued upon the exercise of rights under all rights offerings made by the issuer in reliance on the rights offering prospectus exemption during the previous 12 months;

y = the maximum number of securities that may be issued upon exercise of rights under the proposed rights offering; and

z = the number of securities of the class of securities that is issuable upon the exercise of rights under the proposed rights offering that are outstanding as of the date of the rights offering circular prepared for the proposed rights offering that is delivered to the securities regulatory authority;

then $\frac{x + y}{z}$ must be equal to or less than 0.25; and

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(b) unless it is reasonable to expect that convertible securities that may be acquired under the proposed rights offering will not be converted before 12 months after the date of the proposed rights offering, the potential increase in outstanding securities, and specifically, “y” in paragraph (1), should be calculated as if the conversion of those convertible securities had occurred.

(2) The formula suggested in subsection (1) should be adjusted to take into account any concurrent rights offering.

(3) Since paragraph 1 of section 2.2 of the Regulation prohibits a rights offering under the rights offering prospectus exemption where the result would be an increase in the number or amount of the securities in excess of 25%, the use of the rights offering prospectus exemption is not generally permitted under that paragraph for a rights offering under which the rights are exercisable into a security of a class of securities none of which were outstanding before the date of issuance of the rights.

1.4. Timing of Deliveries

In jurisdictions other than Quebec, the reviewing authority will use its best efforts to notify the issuer within 2 business days of the filing of an amendment to the rights offering circular in draft form or an amended rights offering circular in draft form if changes are required to the document. If the issuer does not hear from the reviewing authority within that time, the issuer may deliver the amendment or amended circular to securityholders. However, this does not preclude further review by the reviewing authority of the amendment or amended circular, which is subject to review at any time. In Quebec, the amendment shall be submitted for approval to the Commission, which must make a decision within two working days after receipt. If approval is refused, the distribution shall cease. If the amendment is approved, the rights offering circular may not be sent unless accompanied by the amendment.

1.5. Compliance with Regulation 43-101 or National Policy Statement No. 2-B

The reviewing authorities may object to the use of the rights offering prospectus exemption if the issuer does not comply with Regulation 43-101 respecting Standards of Disclosure for Mineral Projects or with National Policy Statement No. 2-B or any successor instrument.

1.6. Requests for Additional Information

Canadian securities legislation contemplates that the reviewing authority may request an issuer that intends to effect a rights offering under the rights offering prospectus exemption to send such other information to the reviewing authority as

the reviewing authority may require to allow the reviewing authority to determine whether to object to the use of the rights offering prospectus exemption.

1.7. Availability of Registration Exemption

The rights offering registration exemption is also ordinarily available if the rights offering prospectus exemption is available.

PART 2 PROSPECTUS OFFERINGS

2.1. Availability of Registration Exemption

If an issuer proposes to effect a rights offering by way of prospectus, the rights offering registration exemption continues to be available to the issuer. The Canadian securities regulatory authorities will not ordinarily object to the use of the rights offering registration exemption in that case.

2.2. Public Interest

A regulator may refuse to issue a receipt for a prospectus filed for a rights offering under which rights are issued if the rights are exercisable into convertible securities that require an additional payment by the holder on conversion and the securities underlying the convertible securities are not qualified under the prospectus. This will ensure that the remedies for misrepresentation in the prospectus are available to the person who pays value.

PART 3 INSIDER SUBSCRIPTIONS

3.1. Insider Subscriptions

If no market exists for the securities issuable on the exercise of the rights or if the subscription price is greater than the market price, section 5.1 of the Regulation does not necessarily preclude an insider from exercising rights under a rights offering. Insiders may subscribe for securities issuable on the exercise of rights to maintain their proportionate interest in any class of securities and avoid any dilution. An insider may not, however, exercise its rights to increase its proportionate interest in the issuer. Since the maximum number of securities or amount of securities that an insider may acquire under a rights offering will not be known until it is determined how many rights are exercised by non-insiders, issuers relying on section 5.1 will need to put in place a mechanism to “claw back” securities subscribed for by insiders and to repay subscription proceeds in certain

circumstances, such as when the rights held by non-insiders are not fully exercised or have been traded to insiders. The Canadian securities regulatory authorities suggest that an escrow mechanism be used to ensure a successful claw-back, if necessary.

3.2. Establishing Fair Value If There is no Market Price

Subsection 5.1(2) of the Regulation provides that if there is no market price for the securities issuable on the exercise of rights, insiders may not increase their proportionate interest in the issuer unless the issuer confirms to the reviewing authority that the subscription price is not greater than the fair value of the securities to be subscribed for under the rights. For this purpose, the Canadian securities regulatory authority or regulator will consider as evidence of the fair value such things as fairness opinions, valuations and letters from registered dealers.

PART 4 STAND-BY COMMITMENTS

4.1. Stand-by Commitments

In assessing if a person providing a stand-by commitment has the financial ability to carry out its obligations under the commitment, a reviewing authority will consider any of the following:

- 1. A statement of net worth attested to by the person making the commitment.*
- 2. A bank letter of credit.*
- 3. The most recent annual audited financial statements of the person making the commitment.*
- 4. Any other evidence that provides comfort to the reviewing authority.*

PART 5 OFFERINGS OUTSIDE OF LOCAL JURISDICTION

5.1. Offerings Outside of Local Jurisdiction

A Canadian securities regulatory authority may consider taking appropriate action, such as the denial of exemptions, issuance of a cease trade order or other sanctions, against an issuer and its directors and officers if securityholders resident in its jurisdiction are excluded from a rights offering that is made by an issuer that is

- (a) a reporting issuer; or
- (b) not a reporting issuer but has securityholders resident in its jurisdiction either
 - (i) representing 5% or more of the holders of the securities of the class that are to be issued on the exercise of rights under the rights offering; or
 - (ii) holding 5% or more of the securities of the class that are to be issued on the exercise of rights under the rights offering.

PART 6

DETERMINATION OF BENEFICIAL OWNERSHIP

6.1. Determination of Beneficial Ownership

The Canadian securities regulatory authorities recognize the difficulty of determining beneficial ownership given the book-based system of holding securities. The Canadian securities regulatory authorities are of the view that for the purpose of determining beneficial ownership under Part 10 of the Regulation and Part 5 of the Policy Statement, procedures comparable to those found in National Policy 41 - Shareholder Communication, or any successor instrument, are appropriate.

PART 7

RESALE RESTRICTIONS

7.1. Resale Restrictions

Issuers should refer to Canadian securities legislation to determine resale restrictions and exemptions from these restrictions.

Décision 2001-C-0153, 2001-02-18
(Voir également la décision 2001-C-0154)

Décision 2001-C-0206, 2001-05-22
Bulletin hebdomadaire: 2001-06-22, Vol. XXXII n° 22

Amendments

Décision 2008-PDG-0059 -- 28 février 2008
Bulletin de l'Autorité : 2008-03-14, Vol. 5 n° 10