



POLICY 2.4

CAPITAL POOL COMPANIES

Scope of Policy

This Policy applies to any issuer that proposes to list on the Exchange as a capital pool company (a “CPC”). The Exchange’s program was designed as a corporate finance vehicle to provide businesses with an opportunity to obtain financing earlier in their development than might be possible with an IPO. The CPC program permits an IPO to be conducted and an Exchange listing to be achieved by a newly created company that has no assets, other than cash, and has not commenced commercial operations. The CPC then uses this pool of funds to identify and evaluate assets or businesses which, when acquired, qualify the CPC for listing as a regular Tier 1 or Tier 2 Issuer on the Exchange.

This Policy outlines the procedures for listing a CPC on the Exchange and the procedures to be followed and standards to be applied when a CPC undertakes a Qualifying Transaction.

A CPC that has filed a preliminary CPC Prospectus with the Exchange prior to the Effective Date of this Policy, as hereinafter defined, will continue to be governed by the predecessor to this Policy, including the former Exchange Form of Information Circular (old Form 3A). The main headings in this Policy are:

1. Definitions
2. Overview of Process
3. Minimum Listing Requirements for CPCs
4. Disclosure Required in a CPC Prospectus
5. Agents
6. Agent’s Option
7. Other Options Issued by the CPC
8. Prohibited Payments and Use of Proceeds
9. Restrictions on Trading
10. Private Placements for Cash
11. Escrow
12. Qualifying Transaction
13. Information Circular
14. Other Requirements
15. CPC Combinations
16. Transition

1. Definitions

1.1 In this Policy:

“Agent” means any Person registered under applicable Securities Laws to act as an agent to offer and sell the IPO Shares on behalf of the CPC which has entered into a best efforts agency agreement with the CPC.

“Agreement in Principle” means any enforceable agreement or any other agreement or similar commitment which identifies the fundamental terms upon which the parties agree or intend to agree which:

- (a) identifies assets or a business to be acquired which would reasonably appear to constitute Significant Assets and the acquisition of which would reasonably appear to constitute a Qualifying Transaction;
- (b) identifies the parties to the Qualifying Transaction;
- (c) identifies the consideration to be paid for the Significant Assets or otherwise identifies the means by which the consideration will be determined; and
- (d) identifies the conditions to any further formal agreements to complete the transaction, and

in respect of which there are no material conditions to closing (other than receipt of shareholder approval and Exchange Acceptance), the satisfaction of which is dependent upon third parties and beyond the reasonable control of the Non Arm's Length Parties to the CPC or the Non Arm's Length Parties to the Qualifying Transaction.

“Agent's Option” means the option to purchase common shares of the CPC which may be granted to the Agent in accordance with section 6 of this Policy.

“Commission(s)” refers to the Securities Commission(s) with which the CPC Prospectus is filed.

“common shares” means single voting common shares of an Issuer.

“Completion of the Qualifying Transaction” means the date of the shareholders' meeting at which the proposed Qualifying Transaction was approved by shareholders provided that:

- (a) all post-meeting documentation is subsequently filed with the Exchange; and
- (b) the Final Exchange Bulletin is issued by the Exchange.

“CPC” means a corporation:

- (a) that has been incorporated or organized pursuant to the laws of a jurisdiction in Canada;
- (b) that has filed and obtained a receipt for a preliminary CPC Prospectus from one or more of the Commissions in compliance with this Policy; and
- (c) in regard to which the Final Exchange Bulletin has not yet been issued.

“CPC Information Circular” means the Information Circular of the CPC prepared in accordance with applicable Securities Laws and the Exchange Form of Information Circular (Form 3B) which provides full, true and plain disclosure of all material facts relating to the CPC and the Target Company.

“Escrow Shares” means

- (a) all Seed Shares issued at a price lower than the price of the IPO Shares;
- (b) all Seed Shares, IPO Shares and any securities acquired from treasury after the IPO but before issuance of the Final Exchange Bulletin (other than shares acquired which are subject to section 11.6 and those shares acquired upon exercise of stock options which must be escrowed as provided in section 7.5) which are, directly or indirectly, beneficially owned or controlled by Non Arm's Length Parties of the CPC (as determined post IPO); and
- (c) all securities acquired by a Control Person in the secondary market prior to Completion of the Qualifying Transaction.

“Final Exchange Bulletin” means the Exchange Bulletin issued following closing of the Qualifying Transaction and the submission of all post-meeting documentation and that evidences the final Exchange Acceptance of the Qualifying Transaction.

“IPO Shares” means the common shares offered to the public pursuant to the IPO.

"Majority of the Minority Approval" means the approval of the Qualifying Transaction by the majority of the votes cast by shareholders, other than:

- (a) Non Arm's Length Parties to the CPC;
- (b) Non Arm's Length Parties to the Qualifying Transaction; and
- (c) in the case of a Related Party Transaction:
 - (i) if a CPC holds its own shares, the CPC, and

- (ii) a Person acting jointly or in concert with a Person referred to in paragraph (a) or (b) in respect of the transaction

at a properly constituted meeting of the common shareholders of the CPC.

“Qualifying Transaction” means a transaction where a CPC acquires Significant Assets, other than cash, by way of purchase, amalgamation, merger or arrangement with another Company or by other means.

“Non Arm's Length Parties to the Qualifying Transaction” means the Vendor(s), any Target Company(ies) and includes, in relation to Significant Assets or Target Company(ies), the Non Arm's Length Parties of the Vendor(s), the Non Arm's Length Parties of any Target Company(ies) and all other parties to or associated with the Qualifying Transaction and Associates or Affiliates of all such other parties.

“Resulting Issuer” means the Issuer that was formerly a CPC, which exists upon issuance of the Final Exchange Bulletin.

“Significant Assets” means one or more assets or businesses which, when purchased, optioned or otherwise acquired by the CPC, together with any other concurrent transactions, would result in the CPC meeting the Minimum Listing Requirements. See *Policy 2.1 – Minimum Listing Requirements*.

“Target Company” means a Company to be acquired by the CPC as its Significant Asset pursuant to a Qualifying Transaction.

“Vendors” means one or all of the beneficial owners of the Significant Assets (other than a Target Company(ies)).

2. Overview of Process

2.1 General Matters

The CPC program is a two-stage process. The first stage involves the filing and clearing of a CPC Prospectus, the completion of the IPO and the listing of the CPC's common shares on the Exchange. The second stage involves an Agreement in Principle in respect of a proposed Qualifying Transaction, the preparation and filing with the Exchange of a comprehensive CPC Information Circular containing disclosure as to the holding of a shareholders' meeting to obtain Majority of the Minority Approval in connection with the proposed Qualifying Transaction.

2.2 Stage One – CPC Prospectus and Exchange Listing

- (a) The CPC program is not available in all jurisdictions. Accordingly, Issuers must consult the appropriate Securities Laws to determine the availability of the CPC program in each jurisdiction in which the CPC Prospectus is proposed to be filed. Each of the Commissions retains discretion to determine whether or not to issue a receipt for the CPC Prospectus.
- (b) A CPC must retain an Agent who will sign the CPC Prospectus as underwriter.
- (c) The preliminary CPC Prospectus and all supporting documents required by Securities Laws are concurrently filed via SEDAR with the Exchange and with the Commissions in those jurisdictions where the distribution is to be made. Concurrently with the filing of the preliminary CPC Prospectus, the CPC must also make an application to the Exchange for conditional acceptance of the listing of the CPC. See *Policy 2.3 – Listing Procedures*.
- (d) Where the IPO will be conducted in one province only, the CPC Prospectus must be filed with the regional office of the Exchange in the jurisdiction where the IPO is to be conducted. If the IPO is to be conducted in a region with no corresponding Exchange regional office, the filer may choose the office it wishes to vet the CPC Prospectus. If the IPO is conducted in more than one jurisdiction, the CPC Prospectus should be filed with the regional office of the Exchange corresponding to the principal regulator pursuant to National Policy 43-201 – *Mutual Reliance Review System for Prospectuses and AIFs*.
- (e) The Exchange will issue comments in regard to the preliminary CPC Prospectus and the Application for Listing. Effective June 15, 2002, all comments from the Exchange and all responses made by the CPC to the Exchange, relating to the preliminary CPC Prospectus and CPC Prospectus must be communicated via SEDAR. When the CPC has satisfactorily resolved the significant comments of the Exchange, the Application for Listing will then be presented to the Exchange’s Executive Listing Committee for consideration. If the Application for Listing is conditionally accepted, and the Commission(s) indicate via SEDAR that they are clear to receive final materials, the CPC will file its final CPC Prospectus and all supporting documents via SEDAR with the Exchange and the Commission(s).
- (f) After each applicable Commission has issued a final receipt for the CPC Prospectus, the CPC proceeds to close the IPO. After the closing, final listing documentation, as required under *Policy 2.3 - Listing Procedures*, is filed with the Exchange. If all final listing documentation is satisfactory, the Exchange issues an Exchange Bulletin evidencing its final acceptance of the documents and indicating that the CPC’s shares will commence trading on the Exchange in two trading days. On the date specified in the Exchange Bulletin, the shares will commence trading on Tier 2 of the Exchange.

2.3 Stage Two – Completion of a Qualifying Transaction

- (a) The second stage of the CPC program is triggered when there is an Agreement in Principle to acquire the Significant Assets that form the basis of the CPC's Qualifying Transaction. As soon as the CPC reaches an Agreement in Principle, it must issue a comprehensive news release as described in section 12.2 of this Policy. A Material Change report must be filed pursuant to applicable Securities Laws. When the CPC anticipates that it will be issuing a news release, it must immediately send a copy of the draft news release to the Corporate Finance Department of the Exchange for review.
- (b) Trading in the Listed Shares of the CPC will be halted pursuant to section 14.6(b) pending announcement of the Agreement in Principle made in accordance with section 12.2. Trading will remain halted until each of the following has occurred:
 - (i) where the transaction is subject to sponsorship, the Exchange has received a Sponsorship Acknowledgement Form (Form 2G), and the accompanying documents as may be required by *Policy 2.2 - Sponsorship and Sponsorship Requirements*;
 - (ii) the Exchange has received a Personal Information Form (Form 2A) for each Person who will be a director, senior officer, Promoter (including a Promoter as described in *Policy 3.4 – Investor Relations, Promotional and Market-Making Activities*) and other Insiders of the Resulting Issuer together with resumes for each director and senior officer of the Resulting Issuer;
 - (iii) the Exchange has completed any preliminary background searches it considers necessary or advisable; and
 - (iv) a comprehensive news release prepared in accordance with section 12.2, which is acceptable to the Exchange, has been issued.

The Exchange recommends that a pre-filing conference, as contemplated by *Policy 2.7 – Pre-Filing Conferences*, be held by a CPC particularly where the Agreement In Principle or proposed Qualifying Transaction may involve unique or unusual circumstances.

For the circumstances where a Sponsor Report is required, see *Policy 2.2 – Sponsorship and Sponsorship Requirements*.

- (c) Notwithstanding the satisfaction of the conditions in section 2.3(b), the Exchange may continue or reinstate a halt in trading of the Listed Shares of a CPC for public policy reasons, which may include:
 - (i) the nature of the proposed business of the Resulting Issuer is unacceptable to the Exchange; or

- (ii) the number of conditions precedent that are required to be satisfied by the CPC in order to complete the Qualifying Transaction, or the nature or number of any deficiency or deficiencies required by the Exchange to be resolved is or are so significant or numerous, as to make it appear to the Exchange that the halt should be reinstated or continued.
- (d) The CPC has 75 days from the announcement of the Agreement in Principle to make the initial submission required by section 12.3 of this Policy. The primary documents in the initial submission are the draft CPC Information Circular, and if there is a Sponsor, confirmation that the Sponsor has reviewed the draft CPC Information Circular in accordance with section 12.3(b) of this Policy. See also *Policy 2.2 – Sponsorship and Sponsorship Requirements*. The Exchange reviews the draft CPC Information Circular, and the supporting documents including, if applicable, the preliminary Sponsor Report, and advises of any comments. Provided that the comments in the initial Exchange comment letter are not of a substantial nature, the Exchange will permit the CPC to set the date for the shareholder meeting for approval of the proposed Qualifying Transaction.
- (e) If the Exchange determines that the draft CPC Information Circular, or any supporting document, contains significant deficiencies, the Exchange may request that the CPC re-file all materials at a later date. In these circumstances, the Exchange may not commence its initial detailed review of the draft CPC Information Circular or any other supporting document including, if applicable, the preliminary Sponsor Report, until such deficiencies are substantially resolved to the satisfaction of the Exchange.
- (f) The initial submission is presented to the Exchange’s Executive Listings Committee for consideration. If the application is conditionally accepted, the CPC will be invited to file the pre-meeting documentation described in section 12.4 of this Policy with the Exchange and mail the CPC Information Circular to the shareholders. Concurrently with mailing of the CPC Information Circular to the shareholders, the CPC must file the CPC Information Circular with the Exchange and the Commission(s) via SEDAR.
- (g) The CPC then holds the shareholders’ meeting at which the shareholders are asked to grant Majority of the Minority Approval of the proposed Qualifying Transaction, and to approve any other related matters. If the proposed Qualifying Transaction is subject to Policy 5.9, Majority of the Minority Approval will constitute minority approval as contemplated by Appendix 5B. If the shareholders approve the Qualifying Transaction, the CPC may then proceed to close the Qualifying Transaction and acquire the Significant Assets. After closing of the Qualifying Transaction, the CPC is required to file with the Exchange all post-meeting documentation as described in section 12.5 of this Policy.

- (h) Provided that the post-meeting documentation is satisfactory, the Exchange issues the Final Exchange Bulletin that evidences final Exchange Acceptance and confirms Completion of the Qualifying Transaction. The Final Exchange Bulletin also indicates that the Resulting Issuer will not be considered a CPC and will commence trading in two trading days under a new name and a new stock symbol, if applicable.

2.4 Availability of the CPC Program

The CPC program may not be used where the proposed CPC has an Agreement in Principle. Where a proposed CPC or its Agent(s) is uncertain about the availability of the CPC program, the Exchange encourages them to schedule a pre-filing conference to discuss the issue. See *Policy 2.7 – Pre-Filing Conferences*.

2.5 Guidelines for Interpretation – Agreement in Principle Exists

- (a) **No Material Conditions** – If the board of directors of a CPC has a “meeting of minds” with the other parties to a proposed Qualifying Transaction on all fundamental terms, and no material conditions to closing exist which are beyond the reasonable control of the Non Arm's Length Parties to the CPC or Non Arm's Length Parties to the Qualifying Transaction (other than receipt of shareholder approval and Exchange Acceptance), then an Agreement in Principle exists. In such cases, the parties should seek an alternative method of going public.
- (b) **Non Arm's Length Party Qualifying Transaction**- Regulatory concern arises where the same party or parties control the CPC and the Significant Assets which may be the subject of the Qualifying Transaction (a “Non Arm's Length Party Qualifying Transaction”). Although a formal agreement may not have been entered into, if the Non Arm's Length Parties are nevertheless virtually certain of reaching an agreement, an Agreement in Principle exists and the parties should seek an alternative method of going public.

2.6 Guidelines for Interpretation – Agreement in Principle Does Not Exist

- (a) **Public Announcement of the Intended Acquisition** – A public announcement of an intended acquisition is not, in and of itself, evidence that an Agreement in Principle exists if material conditions beyond the control of the Non Arm's Length Parties to the CPC or the Non Arm's Length Parties of the Qualifying Transaction have to be completed in order to effect the acquisition.
- (b) **Private Placement Financing** – If the CPC is undertaking a best efforts financing, and such financing is a material condition of closing that is unfulfilled, the Exchange will generally consider that an Agreement in Principle has not been reached.

- (c) **Consideration** – If the parties to a proposed acquisition have not agreed on the total consideration to be paid for the Significant Assets or have not conclusively identified the means by which the consideration for the Significant Assets will be determined, the Exchange will generally consider that an Agreement in Principle has not been reached. If a valuation opinion has not been prepared or is not complete, the reasons why the valuation opinion has not been prepared or is not complete should be evaluated. Where there are significant uncertainties underlying source data or assumptions or valuation techniques to be applied, the Exchange will generally consider that an Agreement in Principle has not been reached.
- (d) **Financial Statements** – If financial statements relating to the Significant Assets to be acquired have not yet been prepared, primary due diligence procedures fundamental to the decision to proceed have not been completed. Accordingly, the Exchange will generally consider that an Agreement in Principle has not been reached.
- (e) **Due Diligence** – Where significant due diligence matters remain unresolved, the Exchange will generally consider that an Agreement in Principle has not been reached.

2.7 Disclosure in CPC Prospectus

Notwithstanding the guidelines set forth at section 2.5 and 2.6, the Persons signing the certificate contained in the CPC Prospectus are reminded that they are ultimately responsible for ensuring that the CPC Prospectus provides full, true and plain disclosure of all material facts as required by Securities Laws and as contemplated by section 4.1, including, where applicable, material facts relating to any potential Qualifying Transaction.

2.8 Relief from the “Significant Probable Acquisition” and the “Multiple Acquisition” Disclosure Requirements under OSC Rule 41-501

Issuers that may have a significant probable acquisition or multiple acquisitions, as defined in OSC Rule 41-501, are referred to section 14.10 of this Policy.

3. Minimum Listing Requirements for CPCs

3.1 Restrictions on Business of a CPC

The only business permitted to be undertaken by a CPC is the identification and evaluation of assets or businesses with a view to completing a Qualifying Transaction. Until the Completion of the Qualifying Transaction, a CPC must not carry on any business other than the identification and evaluation of assets or businesses with a view to a potential Qualifying Transaction.

3.2 Listing Requirements

The following minimum listing requirements must be satisfied to be listed as a CPC with the Exchange and to maintain that listing:

- (a) Except to the extent specifically modified by this Policy, the CPC must comply with *Policy 3.1 – Directors, Officers and Corporate Governance*. Each proposed director and officer must meet the minimum suitability requirements under Policy 3.1 and the board of directors of the CPC as a whole must have the public company experience required by that Policy. In addition, each proposed director and senior officer of the CPC must be either:
 - (i) a resident of Canada or the United States, or
 - (ii) an individual who has demonstrated a positive association as a director or officer with one or more public companies that are subject to a regulatory regime comparable to that of a Canadian exchange. The CPC must provide the Exchange with evidence that such regulatory regime is comparable (in terms of registration, regulatory oversight and filing requirements).
- (b) Given the nature of the CPC program, the Exchange expects management of a CPC to meet a high standard. As a result, in addition to the requirements set out in *Policy 3.1 – Directors, Officers and Corporate Governance*, the Exchange requires that the directors and senior officers of the CPC must collectively possess the appropriate experience, qualifications and history which demonstrates that the management of the CPC will be capable of identifying, investigating and acquiring Significant Assets. In determining the acceptability of each director and senior officer, and the board as a whole, the Exchange will review the qualifications, experience, and regulatory history of each proposed member of the board to determine their suitability as a CPC board member on both an individual basis, and in relation to the other members of the board.
- (c) In determining the acceptability of the board in general, the Exchange will consider whether the members of the board collectively possess:
 - (i) a positive track record with junior companies; as evidenced by growth of such companies;
 - (ii) the ability to raise financing;
 - (iii) a positive corporate governance and regulatory history;
 - (iv) technical experience in the appropriate industry sector, where applicable;
 - (v) the ability to locate and develop appropriate acquisition opportunities for companies; and

- (vi) positive experience as directors or senior officers with public companies in Canada or the United States, as evidenced by the growth of such companies and /or the listing of such companies on Tier 1 of the Exchange or on a senior exchange or quotation system such as the TSE, NASDAQ or NYSE.
- (d) The minimum price per share at which the Seed Shares may be issued is the greater of \$0.075 and 50% of the price at which the IPO Shares are sold.
- (e) The minimum total amount of Seed Capital raised by the CPC through the issuance of the Seed Shares must be equal to or greater than \$100,000 and must be contributed by directors and officers of the CPC or trusts or holding companies controlled by these directors or officers. Control can be demonstrated by ownership of 50% or more of the outstanding voting securities or in the case of a trust, beneficial interest in the trust. Seed Capital contributions made by trusts or holding companies will be pro rated on the basis of the percentage of ownership or beneficial interest held by the applicable directors or officers or immediate family members or such directors and officers. Each director and officer of the CPC or their respective trust (or holding company) must subscribe for Seed Shares for an aggregate consideration of at least \$5000. Seed Share subscriptions by others will only be permitted after this initial \$100,000 has been contributed.
- (f) The minimum price at which the IPO Shares may be issued is \$0.15. Only a single class of common shares may be issued as Seed Shares and IPO Shares. The maximum price per share for the IPO Shares is \$0.30.
- (g) Companies cannot hold Seed Shares unless the name of each individual who directly or indirectly beneficially owns, controls or directs these securities is disclosed to the Exchange. If the beneficial owner of Seed Shares is not an individual, the name of the individual or individuals beneficially owning, controlling or directing the Company or Companies that hold the Seed Shares of the CPC must be disclosed.
- (h) At the time of listing and until Completion of the Qualifying Transaction, neither the CPC nor any other party on behalf of the CPC will have engaged or will engage the services of any Person to provide Investor Relations Activities, promotional or market-making services.
- (i) The gross proceeds to the treasury of the CPC from its IPO must be equal to or greater than \$200,000 and must not exceed \$500,000.
- (j) Subject to section 10.3, the maximum aggregate gross proceeds to the treasury of the CPC from the issuance of IPO Shares and all Seed Shares must not exceed \$700,000.
- (k) The CPC must have at least 1,000,000 of its issued and outstanding common shares in the Public Float upon completion of the IPO.

- (l) Upon completion of the IPO, the CPC must have a minimum of 300 shareholders with each shareholder beneficially owning at least 1,000 common shares free of Resale Restrictions exclusive of any common shares held by Non Arm's Length Parties to the CPC;
- (m) The maximum number of common shares which may be directly or indirectly purchased by any one purchaser pursuant to the IPO will be 2% of the IPO Shares.
- (n) Notwithstanding section 3.2(m) above, the maximum number of common shares that may be directly or indirectly purchased pursuant to the IPO by any purchaser, together with that purchaser's Associates and Affiliates, is 4% of the IPO Shares.
- (o) Other than IPO Shares, the only additional securities that may be issued and outstanding are Seed Shares, stock options as permitted by section 7 of this Policy, the Agent's Option, any securities issued upon consent of the Exchange in accordance with section 10.3, and any securities issued pursuant to the Qualifying Transaction.
- (p) The ownership of Seed Shares and IPO Shares by the Sponsor and its Associates or Affiliates and by any member of the Pro Group, must be in compliance with section 14.8 of this Policy.

3.3 Listing Documents

A Company seeking a listing as a CPC must file:

- (a) with the Exchange and the Commissions, all documentation required to be filed in connection with a Prospectus under applicable Securities Law, and, in the case of the filing with the Exchange, must also include in the covering letter identification of any required waivers or exemptive relief applications from Exchange Requirements; and
- (b) with the Exchange, all applicable documentation required to be filed for a Listing Application under *Policy 2.3 - Listing Procedures*.

4. Disclosure Required in a CPC Prospectus

- 4.1 A CPC Prospectus must provide full, true and plain disclosure of all material facts relating to the securities offered under the CPC Prospectus. It must be prepared in accordance with applicable Securities Law, and pursuant to the CPC Prospectus Form (Form 3A). The Exchange requires all Issuers filing a CPC Prospectus to comply with OSC Rule 41-501 - *General Prospectus Requirements* or the equivalent local rule or instrument allowing for prospectuses prepared in compliance with OSC Rule 41-501. Issuers are reminded that the CPC Prospectus Form is not a Commission form, and is intended to provide guidance to a CPC in respect of compliance with OSC Form 41-501F under OSC Rule 41-501.

5. Agents

5.1 General

In each jurisdiction where the IPO is conducted, the CPC must have an Agent who is registered under the Securities Laws in a category which permits the Agent to act as the selling agent of the IPO Shares. At least one Agent must be a Member of the Exchange. An Agent must sign the certificate page of the CPC Prospectus as underwriter.

5.2 Agent's Compensation

- (a) The maximum sales commission payable to an Agent as compensation for acting as the Agent in connection with the IPO is 10% of the gross proceeds raised pursuant to the IPO.
- (b) Other than as provided for in this Policy, no securities of the CPC can be issued or granted to the Agent or its Associates or Affiliates.
- (c) Any corporate finance fee or other compensation paid or to be paid to the Agent in its capacity as agent or otherwise in connection with the CPC Prospectus must be disclosed in the CPC Prospectus and any such fee or compensation payable in connection with a Qualifying Transaction must be disclosed in the CPC Information Circular, and if known at the date of the CPC Prospectus, in the CPC Prospectus. Any such fees or compensation must be reasonable in the circumstances.

6. Agent's Option

6.1 No option or other right to subscribe for securities of a CPC may be granted to the Agent unless:

- (a) the option or right is a single, non-transferable option or right;
- (b) the number of shares issuable upon exercise of the option or right does not exceed 10% of the total number of IPO Shares;
- (c) the exercise price per share under the option or right is not less than the IPO Share price; and
- (d) the option or right is exercisable only until the close of business on the date that is 18 months from the date of listing of the shares of the CPC on the Exchange.

6.2 The option or right may be exercised in whole or in part by the Agent before the Completion of the Qualifying Transaction by the CPC, provided that no more than 50 percent of the aggregate number of common shares which can be acquired by the Agent on exercise of the entire option or right may be sold by the Agent before the Completion of the Qualifying Transaction.

7. Other Options Issued by the CPC

- 7.1 Incentive stock options granted by a CPC may only entitle the holder to acquire common shares of the CPC. Incentive stock options may only be granted to a director or officer of the CPC, and where permitted by Securities Laws, a technical consultant whose particular industry expertise in relation to the business of the Vendors or the Target Company, as the case may be, is required to evaluate the proposed Qualifying Transaction, or a Company, all of whose securities are owned by such a director, officer or technical consultant. The total number of common shares reserved under option for issuance under this section or as may be issued under section 7.7, may not exceed 10% of the common shares to be outstanding as at the closing of the IPO.
- 7.2 The number of common shares reserved under option for issuance to any individual director or officer may not exceed 5% of the common shares to be outstanding after closing of the IPO. The number of common shares reserved under option for issuance to all technical consultants may not exceed 2% of the common shares to be outstanding after closing of the IPO. Options granted by a CPC are subject to the percentage limitations set forth in *Policy 4.4 - Incentive Stock Options*.
- 7.3 CPC's are prohibited from granting options to any person providing Investor Relations Activities, promotional or market-making services.
- 7.4 The exercise price per common share under any stock option granted by a CPC cannot be less than the greater of the IPO Share price and the Discounted Market Price.
- 7.5 No stock option granted pursuant to this section may be exercised before the Completion of the Qualifying Transaction unless the optionee agrees in writing to deposit the shares acquired into escrow until the issuance of the Final Exchange Bulletin.
- 7.6 Stock Options granted after the IPO must be filed using *Form 4G - Summary Form - Incentive Stock Options*.
- 7.7 A CPC may grant an Eligible Charitable Organization (as defined in *Policy 4.7 - Charitable Options*) options to acquire shares of the CPC. Any grant of options made to an Eligible Charitable Organization must be made in accordance with Policy 4.7.

8. Prohibited Payments and Use of Proceeds

8.1 Prohibited Payments to Non Arm's Length Parties

Except as permitted by sections 7 and 8 of this Policy, until the Completion of the Qualifying Transaction, no payment of any kind may be made, directly or indirectly, by a CPC to a Non Arm's Length Party to the CPC or a Non Arm's Length Party to the Qualifying Transaction, or to any person engaged in Investor Relations Activities in respect of the CPC or the securities of the CPC or any Resulting Issuer by any means including:

- (a) remuneration, which includes, but is not limited to:
 - (i) salaries;
 - (ii) consulting fees;
 - (iii) management contract fees or directors' fees;
 - (iv) finder's fees;
 - (v) loans;
 - (vi) advances;
 - (vii) bonuses; and
- (b) deposits and similar payments.

No payment referred to in this section may be made by a CPC or by any party on behalf of the CPC, after the Completion of the Qualifying Transaction, if the payment relates to services rendered or obligations incurred before or in connection with the Qualifying Transaction.

8.2 Exceptions to the Prohibitions on Payments to Related Parties of the CPC

Subject to subsections 3.1, 8.4 and 8.5, a CPC may:

- (a) reimburse a Non Arm's Length Party to the CPC for:
 - (i) reasonable expenses for office supplies, office rent and related utilities;
 - (ii) reasonable expenses for equipment leases; and
 - (iii) legal services, provided that:
 - (A) if the lawyer receiving the remuneration is a sole practitioner, or a member of an association of sole practitioners, the lawyer is not a Promoter of the CPC; and
 - (B) if the legal services are provided by a firm of lawyers, no member of the law firm is a Promoter or owns greater than 10% of the shares of the CPC; and
- (b) reimburse a Non Arm's Length Party to the CPC for reasonable out-of-pocket expenses incurred in pursuing the business of the CPC as referenced in section 3.1.

8.3 Permitted Use of Proceeds

- (a) Subject to subsections 3.1, 8.2, and 8.4 until the Completion of the Qualifying Transaction, the gross proceeds realized from the sale of all securities issued by the CPC may only be used to identify and evaluate assets or businesses and obtain shareholder approval for a proposed Qualifying Transaction. The proceeds may be used for expenses such as expenses incurred for the preparation of:
- (i) valuations or appraisals;
 - (ii) business plans;
 - (iii) feasibility studies and technical assessments;
 - (iv) sponsorship reports;
 - (v) Geological Reports;
 - (vi) financial statements; and
 - (vii) fees for legal and accounting services,
- relating to the identification and evaluation of assets or businesses and the obtaining of shareholder approval for the proposed Qualifying Transaction.
- (b) Certain loans, advances and deposits may be made to the Target Company by the CPC provided they are made in compliance with section 8.5 of this Policy.

8.4 Restrictions on Use of Proceeds

- (a) Until the Completion of the Qualifying Transaction, no more than 30% of the gross proceeds from the sale of securities issued by a CPC may be used for purposes other than as provided in section 8.3. For greater clarification, expenditures that are not included in section 8.3 include:
- (i) listing and filing fees (including SEDAR fees);
 - (ii) Agent's fees, costs and commissions;
 - (iii) other costs of the issue of securities, including legal and audit expenses relating to the preparation and filing of the CPC Prospectus; and
 - (iv) administrative and general expenses of the CPC, including:
 - (A) office supplies, office rent and related utilities;
 - (B) printing costs, including printing of the CPC Prospectus and share certificates;

- (C) equipment leases; and
 - (D) fees for legal advice and audit services relating to matters other than those described in paragraph 8.3(a)
- (b) Until the Completion of the Qualifying Transaction, no proceeds from the sale of securities of a CPC may be used to acquire or lease a vehicle.
- (c) The restrictions in this Policy on expenditures and the use of proceeds continue to apply until Completion of the Qualifying Transaction.
- (d) If the CPC completes a Qualifying Transaction before spending the entire proceeds on identifying and evaluating properties or businesses, the CPC may use the remaining funds to finance or partly finance the acquisition of, or participation in the Significant Assets.

8.5 Deposits, Loans and Advances to the Vendor or Target Company

- (a) Subject to prior Exchange Acceptance, up to an aggregate of \$100,000 may be advanced as a refundable deposit or secured loan by a CPC to a Vendor or Target Company as the case may be, for a proposed arm's length Qualifying Transaction provided that:
 - (i) the Qualifying Transaction has been announced pursuant to section 12.2;
 - (ii) the due diligence with respect to the Qualifying Transaction is well underway;
 - (iii) a sponsor has been engaged (as evidenced by the filing of a Sponsorship Acknowledgement Form) or sponsorship has been waived in relation to the Qualifying Transaction; and
 - (iv) the advance has been announced in a news release at least 15 days prior to the date of any such advance.
- (b) A maximum of \$25,000 in aggregate, may also be advanced as a non-refundable deposit, unsecured deposit or advance to a Vendor or Target Company, as the case may be, to preserve assets without prior Exchange Acceptance
- (c) Subject to sections 8.5(a) and 10, as well as a public announcement made pursuant to section 12.2, funds raised by a CPC pursuant to a Private Placement conducted after such announcement but before the Completion of the Qualifying Transaction, may be used to provide a secured loan or other deposit to a Vendor or a Target Company, as the case may be.

- (d) If less than the entire permitted portion of a loan or deposit is advanced, a subsequent loan or deposit up to the balance of the maximum aggregate loan or deposit permitted may be made. Similarly, if a deposit or loan or a part of it is refunded, the refunded amount can be used for a subsequent advance.

8.6 Investment of CPC Funds

Until required for the CPC's purposes, the proceeds may only be invested in securities of, or those guaranteed by, the Government of Canada or any Province or territory of Canada or the Government of the United States, in certificates of deposit or interest-bearing accounts of Canadian chartered banks, trust companies or credit unions.

9. Restrictions on Trading

- 9.1 Other than the IPO Shares, the Agent's Option and incentive stock options and options granted to Eligible Charitable Organizations, or as otherwise permitted by section 10, no securities of a CPC may be issued or traded during the period between the date of the receipt for the preliminary CPC Prospectus and the time the common shares begin trading on the Exchange, except with the prior approval of the Exchange and, if applicable, pursuant to exemptions from the registration and prospectus requirements under applicable Securities Laws.

10. Private Placements for Cash

- 10.1 After the closing of the IPO and until the Completion of the Qualifying Transaction, a CPC may not issue any securities unless written acceptance of the Exchange is obtained before the issuance of the securities. See *Policy 4.1 - Private Placements* for filing procedures.
- 10.2 Prior to the announcement of the proposed Qualifying Transaction, pursuant to section 12.2, the Exchange generally will not accept a Private Placement by a CPC where the gross proceeds raised from the issuance of Seed Shares, IPO Shares and any proceeds anticipated to be raised upon closing of the Private Placement exceeds \$700,000.
- 10.3 Where a proposed Qualifying Transaction has been announced pursuant to section 12.2, and the funds raised pursuant to the Private Placement are to be used in connection with the proposed Qualifying Transaction, the Exchange will permit funds to be raised for maximum gross proceeds of \$125,000 where:
 - (a) the proposed Qualifying Transaction is not a Non Arm's Length Party Qualifying Transaction;
 - (b) due diligence in relation to the Qualifying Transaction is well underway;
 - (c) a sponsor has been engaged (evidenced by the filing of a Sponsorship Acknowledgement Form) or sponsorship has been waived;

- (d) the securities issued pursuant to the Private Placement will be excluded from voting on the Qualifying Transaction and any other matter relating to the Qualifying Transaction; and
 - (e) adequate disclosure as to the use of proceeds of such Private Placement is provided to placees.
- 10.4 If the Private Placement is priced at the pre-announcement price, or where the shares of the CPC have not commenced trading, shares issued pursuant to the Private Placement to Non Arm's Length Parties to the CPC and Principals of the proposed Resulting Issuer must be escrowed pursuant to *Policy 5.4 – Escrow, Vendor Consideration and Resale Restrictions*.
- 10.5 Certain securities issued on a Private Placement to Non Arm's Length Parties to the CPC and Principals of the proposed Resulting Issuer may be subject to escrow. See section 11 of this Policy, and *Policy 4.1 - Private Placements* for filing requirements.

11. Escrow

- 11.1 All Escrow Shares must be held in escrow pursuant to the CPC escrow agreement prepared in accordance with Form 2F (the “CPC Escrow Agreement”).

11.2 Cancellation of Escrow Shares

- (a) If Non Arm's Length Parties to the CPC purchased Seed Shares at a discount to the IPO Price, the terms of the CPC Escrow Agreement must irrevocably authorize and direct the escrow agent appointed under the CPC Escrow Agreement, to immediately cancel all such shares upon the issuance of an Exchange Bulletin delisting the CPC from the Exchange.
- (b) The CPC Escrow Agreement must provide an irrevocable authorization and direction to the escrow agent to cancel all Seed Shares on a date that is 10 years from the date the Exchange issues an Exchange Bulletin delisting the CPC.

11.3 Holding Companies

If securities of a CPC required to be held in escrow are held by a non-individual (a “holding company”), the holding company may not carry out any transactions that would result in a change of control of the holding company without the consent of the Exchange. Any holding company must sign an undertaking to the Exchange, that, to the extent reasonably possible, it will not permit or authorize securities to be issued or transferred if it could reasonably result in a change of control of the holding company. In addition, the Exchange requires an undertaking from any control persons of the holding company not to transfer shares of the holding company.

11.4 Release from Escrow

Subject to section 7.5 and subsection 11.2, Escrow Shares will be released from escrow as prescribed by the CPC Escrow Agreement.

11.5 Transfers

Except as specifically provided for in the escrow agreements required by this Policy, transfers of shares escrowed pursuant to this Policy require the prior written consent of the Exchange. The Exchange will generally only permit a transfer of shares held in escrow to incoming Principals in connection with a proposed Qualifying Transaction. Issuers are reminded that any such transfer of securities must be made pursuant to exemptions from the registration and prospectus requirements under applicable Securities Laws.

11.6 Escrow of Securities Issued Pursuant to Qualifying Transaction

- (a) Subject to subsection 11.7, all securities which will be held by Principals of the proposed Resulting Issuer at the date of the Final Exchange Bulletin are required to be escrowed pursuant to *Policy 5.4 – Escrow, Vendor Consideration and Resale Restrictions*. All securities issued to Principals of the Resulting Issuer prior to the Completion of the Qualifying Transaction, except pursuant to stock option grants, will be subject to a Value Security Escrow Agreement, including securities which were free trading at the time of the announcement of the proposed Qualifying Transaction pursuant to section 12.2.
- (b) Any securities issued to any other Person in conjunction with or contemporaneous to the Qualifying Transaction may be subject to escrow requirements or Resale Restrictions pursuant to *Policy 5.4 – Escrow, Vendor Consideration and Resale Restrictions*.

11.7 Exemption for Certain Private Placement Securities

The Exchange will generally exempt from escrow, those securities issued to Principals of the CPC and the proposed Resulting Issuer obtained in connection with a Private Placement if:

- (a) the Private Placement is announced at least five trading days after the news release announcing the Agreement in Principle and the pricing for the financing is at not less than the Discounted Market Price; or
- (b) the Private Placement is announced concurrently with the Agreement in Principle in respect of the proposed Qualifying Transaction and:
 - (i) at least 75% of the proceeds from the Private Placement are not from Principals of the CPC or the proposed Resulting Issuer;
 - (ii) if subscribers, other than Principals of the CPC or the proposed Resulting Issuer will obtain securities subject to hold periods, then, in addition to any Resale Restrictions under applicable Securities Laws, any securities issued to such Principals will be required to be subject to a four month hold period and the securities certificates legended accordingly, as referred to in *Policy 3.2 – Filing Requirements and Continuous Disclosure*; and

- (iii) none of the proceeds from the Private Placement are allocated to pay compensation to or settle indebtedness owing to Principals of the Resulting Issuer.

12. Qualifying Transaction

12.1 Minimum Listing Requirements

- (a) Prior to the Exchange issuing the Final Exchange Bulletin, the Resulting Issuer must satisfy the Exchange's minimum listing requirements for the particular industry sector in either Tier 1 or Tier 2 as prescribed by *Policy 2.1 - Minimum Listing Requirements*, except that public distribution must be in compliance with the public distribution requirements for an issuer in its first year of listing in the applicable tier as described in *Policy 2.5 - Tier Maintenance Requirements and Inter-Tier Movement*.
- (b) References in Policy 2.1 to prior expenditures of the Issuer mean, for the purposes of this Policy, prior expenditures of the Target Company or Vendors of the Significant Assets.
- (c) References in Policy 2.1 to Working Capital, Financial Resources or Net Tangible Assets mean, for the purposes of this Policy, the consolidated Working Capital, Financial Resources and Net Tangible Assets of the Resulting Issuer.
- (d) The majority of the directors and senior officers of the Resulting Issuer must be:
 - (i) residents of Canada or the United States; or
 - (ii) individuals who have demonstrated a positive association as directors or officers with public companies that are subject to a regulatory regime comparable to that applicable to companies listed on a Canadian exchange. The Issuer must provide the Exchange with evidence that such regulatory regime is comparable (in terms of registration, regulatory oversight, and filing requirements).
- (e) The Resulting Issuer cannot be a finance company, financial institution, finance issuer, or mutual fund, as defined under applicable Securities Laws, Issuers in doubt as to whether the Resulting Issuer may be a finance company, finance issuer or mutual fund should consult with the Exchange.
- (f) Except where the Resulting Issuer is an Oil & Gas Issuer or a Mining Issuer, the Qualifying Transaction of a CPC cannot involve the acquisition of a Significant Asset, where the primary asset is located other than in Canada or the United States.
- (g) Issuers are reminded that in respect of a Qualifying Transaction, this Policy must be read in conjunction with *Policy 5.9 Insider Bids, Issuer Bids, Going Private Transactions and Related Party Transactions*.

12.2 Announcement of Agreement in Principle Regarding a Proposed Qualifying Transaction

When an Agreement in Principle is reached, the CPC must immediately prepare and submit to the Exchange for review, a comprehensive news release which must include:

- (a) the date of the agreement;
- (b) a description of the proposed Significant Assets, including:
 - (i) a statement as to the industry sector in which the Resulting Issuer will be involved;
 - (ii) the history and nature of business previously conducted; and
 - (iii) a summary of any available significant financial information respecting the Significant Assets (with an indication as to whether such information is audited or unaudited and the currency of such information);
- (c) a description of the terms of the proposed Qualifying Transaction including the amount of proposed consideration, including an indication of how the consideration is to be satisfied and the amounts to be paid by way of cash, securities, indebtedness or other means;
- (d) identification of the location of the proposed Significant Assets, including, in the event that the Significant Assets are to be acquired by the acquisition of a Target Company, identification of the jurisdiction of incorporation or creation of the Target Company;
- (e) the full names and jurisdictions of residence of each of the Vendors of the Significant Assets and, if any of the Vendors is a Company, the full name and jurisdiction of incorporation or creation of that Company, and the name and jurisdiction of residence of each of the individuals who directly or indirectly beneficially holds a controlling interest in or who otherwise controls or directs that Company;
- (f) identification of:
 - (i) any direct or indirect beneficial interest of any of the Non Arm's Length Parties to the CPC in the proposed Significant Assets;
 - (ii) any Non Arm's Length Parties to the CPC that are otherwise Insiders of any Target Company; and
 - (iii) any relationship between or among the Non Arm's Length Parties to the CPC and the Non Arm's Length Parties to the Qualifying Transaction;

- (g) the names and backgrounds of all Persons who will constitute Insiders of the Resulting Issuer;
- (h) a description of any financing arrangements for or in conjunction with the Qualifying Transaction including the amount, security, terms, use of proceeds and details of the agent's compensation;
- (i) a description of any deposit made as permitted by this Policy and description of any advance or loan to be made, subject to Exchange Acceptance, including the terms of the advance, loan or any proposed Private Placement from which proceeds are to be raised to provide the funds for such advance or loan and the proposed use of the advance or loan;
- (j) an indication of any significant conditions required to be satisfied in connection with the closing of the Qualifying Transaction;
- (k) if a Sponsor has been retained in connection with the proposed Qualifying Transaction as contemplated by *Policy 2.2 – Sponsorship and Sponsorship Requirements*, identification of the Sponsor;
- (l) the following statement:

“Completion of the transaction is subject to a number of conditions, including but not limited to, Exchange acceptance and majority of the minority shareholder approval. The transaction cannot close until the required shareholder approval is obtained. There can be no assurance that the transaction will be completed as proposed or at all.

Investors are cautioned that, except as disclosed in the management information circular to be prepared in connection with the transaction, any information released or received with respect to the transaction may not be accurate or complete and should not be relied upon. Trading in the securities of a capital pool company should be considered highly speculative.

The Canadian Venture Exchange Inc. has in no way passed upon the merits of the proposed transaction and has neither approved nor disapproved the contents of this press release.”

- (m) if a Sponsor has been retained, the following additional statement:

“[Insert name of Sponsor], subject to completion of satisfactory due diligence, has agreed to act as sponsor in connection with the transaction. An agreement to sponsor should not be construed as any assurance with respect to the merits of the transaction or the likelihood of completion.”

- (n) if applicable, any additional disclosure required by Appendix 5B; and
- (o) all other requirements of *Policy 3.3 - Timely Disclosure*.

The Exchange will co-ordinate with the CPC the timing of the news release in an effort to ensure proper dissemination. Subject to section 2.3(c), trading in the common shares of the CPC will remain halted until the steps referenced in section 2.3(b) of this Policy have been completed.

CPCs are reminded that they will be required to update the news release in respect of any change in Material Information as contemplated by *Policy 3.3 – Timely Disclosure*.

12.3 Initial Submission

The following documents must be filed with the Exchange for review within 75 days after the public announcement of the Agreement in Principle, failing which the trading in the shares of the CPC will be halted until all required documents have been filed:

- (a) a submission letter from the CPC (or, with the consent of the CPC, from the Target Company) giving notice of the proposed Qualifying Transaction and providing:
 - (i) a summary of the transaction and identification of any unusual terms;
 - (ii) a list of the documents included in the submission;
 - (iii) identification of particular registration and prospectus exemptions, if any, being relied upon if securities are to be issued as part of the transaction;
 - (iv) indication of whether the proposed Qualifying Transaction is subject to Policy 5.9, and if it is subject to Policy 5.9, the CPC shall provide a statement identifying whether it is relying upon an Exchange Valuation Exemption pursuant to Policy 5.9, in which case the CPC shall enclose the certificate required by Policy 5.9; and
 - (v) where applicable, identification of any required waivers or exemptive relief applications from Exchange Requirements, and applicable Securities Laws;
- (b) if applicable, the preliminary Sponsor Report accompanied by a confirmation that the Sponsor has reviewed the draft CPC Information Circular on a preliminary due diligence basis. (See *Policy 2.2 – Sponsorship and Sponsorship Requirements*);
- (c) draft copies of the notice of meeting, form of proxy and the CPC Information Circular disclosing the terms of the proposed Qualifying Transaction and prepared in accordance with section 13 of this Policy;
- (d) one copy of each material contract that the CPC (or any Target Company) has entered into which has not been previously filed with the Exchange;
- (e) a copy of each Geological Report, valuation, appraisal or other technical report required to be filed with the Exchange and a letter of qualifications and independence from the author of each report;

- (f) in the case of any non-resource issuer, a copy of a business plan for the next 24 month period;
- (g) details of any other evidence of value:
 - (i) as contemplated by *Policy 5.4 – Escrow, Vendor Consideration and Resale Restrictions*; or
 - (ii) a formal valuation, and any prior valuations where the proposed Qualifying Transaction is subject to the valuation requirements of Policy 5.9 including Appendix 5B.
- (h) copies of Insider reports relating to the transactions in the securities of the CPC by the CPC's Insiders for the period during which the CPC has traded on the Exchange; and
- (i) the minimum fee as prescribed by *Policy 1.3 – Schedule of Fees*.

The Exchange will review the initial submission, and, provided that the deficiencies are not of a substantial nature, the CPC will be permitted to set a meeting date to approve the proposed Qualifying Transaction. Where a Qualifying Transaction has not been sponsored, the Exchange will require additional time to review the initial submission and confirm that appropriate due diligence measures have been undertaken by the CPC and its advisors.

12.4 Pre-Meeting Documentation

When a CPC has cleared all comments raised by the Exchange in connection with the initial submission, the CPC will be required to file the following documents with the Exchange:

- (a) a copy of the final CPC Information Circular including the notice of meeting and the form of proxy to be mailed to shareholders;
- (b) a copy of the final CPC Information Circular black-lined to show changes from the draft CPC Information Circular referred to at section 12.3(c);
- (c) a copy of any material contract that the CPC or any Target Company has entered into, or other document previously filed with the Exchange in draft form;

- (d) a consent letter from any auditor, engineer, appraiser or other expert (an “Expert”) named in the CPC Information Circular as having prepared or rendered a report, opinion or valuation (a “Report”) on any part of the circular or named as having prepared a Report filed in connection with the CPC Information Circular. The letter must consent to the submission of the Report to the Exchange, and the inclusion or reference in the CPC Information Circular of the Expert’s Report and state that the Expert has read the CPC Information Circular and has no reason to believe that there is any misrepresentation contained in the CPC Information Circular which is derived from his Expert’s Report or which he is otherwise aware and,
- (i) in the case of the consent of an auditor, the letter shall also state:
- (A) the date of the financial statements on which the Report of the auditor is made, and
- (B) that the auditor has no reason to believe that there are any misrepresentations in the information contained in the CPC Information Circular;
- (I) derived from the financial statements on which the auditor has reported, or
- (II) within the knowledge of the auditor as a result of the audit of the financial statements; and
- (ii) in the case of the consent of:
- (A) a qualified person, as defined in National Instrument 43-101 – *Standards of Disclosure For Minerals Projects*, the letter shall, in the case of a technical report, also include the consent and certificate required by that instrument; or
- (B) a qualified evaluator, as defined in proposed National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*, then upon the coming into force of that instrument, the letter shall also include the form of consent specified by that instrument;
- (e) a comfort letter from the auditor of the CPC or the Target Company, as applicable, prepared in accordance with the relevant standards in the Handbook, if an unaudited financial statement of the CPC or a Target Company is included in the CPC Information Circular; and
- (f) if a financial statement included in a CPC Information Circular has been prepared in accordance with foreign GAAP or includes a foreign auditor’s report, a letter to the Exchange from the auditor that discusses the auditor’s expertise

- (i) to audit the reconciliation of foreign GAAP to Canadian GAAP; and
- (ii) in the case of foreign GAAS, other than U.S. GAAS applied by a U.S. auditor, to make the determination that the auditing standards applied are substantially equivalent to Canadian GAAS.

Subject to satisfactory review of the pre-meeting documentation, the Exchange will advise the CPC that it is cleared to mail the notice of meeting, CPC Information Circular and form of proxy to shareholders, and will provide its conditional acceptance of the Qualifying Transaction subject to the receipt of the required shareholder approval and any other conditions the Exchange deems appropriate. The Exchange will issue a Bulletin indicating that it has accepted the Information Circular for the purposes of mailing and filing on SEDAR.

Concurrently, with the mailing of the notice of meeting, CPC Information Circular and form of proxy to shareholders, the CPC must file these documents with the applicable Commission(s) via SEDAR and with the Exchange.

12.5 Post-Meeting Documentation

The following documentation is required to be filed with the Exchange within the time period prescribed by the Exchange, following the shareholders' meeting and is required to be filed before the Exchange will issue the Final Exchange Bulletin:

- (a) a certified copy of the Scrutineer's Report confirming:
 - (i) Majority of the Minority Approval for the Qualifying Transaction, and
 - (ii) applicable approval of Shareholders of any other matters in respect of which such approval was required;
- (b) an originally executed or notarially certified copy of the escrow agreements required under *Policy 5.4 – Escrow, Vendor Consideration and Resale Restrictions*;
- (c) a legal opinion or officers' certificate confirming that, other than final Exchange Acceptance, all closing conditions have been satisfied;
- (d) if applicable, a final executed copy of the Sponsor Report;
- (e) the balance of the applicable listing fee as prescribed by *Policy 1.3 - Schedule of Fees*; and
- (f) any other documents required to be filed.

12.6 Assessment of a Significant Connection to Ontario

Where a Resulting Issuer, upon Completion of a Qualifying Transaction, is aware that it has a Significant Connection to Ontario, it must immediately notify the Exchange and make application to the Ontario Securities Commission to be deemed a reporting issuer pursuant to section 19.2 of *Policy 3.1 – Directors, Officers and Corporate Governance*.

13. Information Circular

13.1 The CPC Information Circular submitted to the Exchange and mailed to shareholders in connection with a proposed Qualifying Transaction must be prepared in accordance with Form 3B and the provisions of this Policy and prepared and mailed in accordance with applicable corporate law and Securities Law requirements. If applicable, CPCs are reminded of the additional disclosure requirements of Policy 5.9 and Appendix 5B mandated for Related Party Transactions.

13.2 Financial Statements

The financial statements that are to be included in the CPC Information Circular must comply with the requirements of the Exchange Form of Information Circular (Form 3B).

13.3 Generally Accepted Accounting Principles

- (a) The financial statements of an issuer incorporated or organized in a Canadian jurisdiction that are included in the CPC Information Circular shall be prepared in accordance with Canadian GAAP.
- (b) The financial statements of an issuer incorporated or organized in a foreign jurisdiction that are included in the CPC Information Circular shall be prepared in accordance with
 - (i) Canadian GAAP; or
 - (ii) foreign GAAP, if the notes to the financial statements
 - (A) explain and quantify the effect of material differences between Canadian GAAP and foreign GAAP that relate to measurements, and
 - (B) provide disclosure consistent with Canadian GAAP requirements to the extent not already reflected in the financial statements.

13.4 Exception to the Requirement to Reconcile Financial Statements Prepared in Accordance with Foreign GAAP

Despite subsection 13.3(b)(ii), if an issuer has made a significant acquisition or is proposing to make a significant acquisition, and is required to provide financial statements of the business in accordance with the CPC Information Circular prepared in accordance with Form 3B and those financial statements have been prepared in accordance with a foreign GAAP, the reconciliation to Canadian GAAP may be excluded for the earliest of the three years presented.

13.5 Generally Accepted Auditing Standards

- (a) Financial statements of an issuer incorporated or organized in a Canadian jurisdiction that are included in a CPC Information Circular shall be audited in accordance with Canadian GAAS and accompanied by a Canadian auditor's report.
- (b) The financial statements of an issuer incorporated or organized in a foreign jurisdiction that are included in a CPC Information Circular shall be audited in accordance with
 - (i) Canadian GAAS; or
 - (ii) foreign GAAS provided the foreign GAAS is substantially equivalent to Canadian GAAS.

13.6 Foreign Auditor's Report

If the financial statements included in a CPC Information Circular are accompanied by a foreign auditor's report, the auditor's report shall be accompanied by a statement by the auditor

- (a) disclosing any material differences in the form and content of the foreign auditor's report as compared to a Canadian auditor's report; and
- (b) confirming that the auditing standards applied are substantially equivalent to Canadian GAAS.

13.7 Review of Financial Statements Included in a CPC Information Circular

- (a) An issuer shall not file a CPC Information Circular prepared in accordance with Form 3B unless each financial statement of an issuer included in that CPC Information Circular has been reviewed by the audit committee of the board of directors of the issuer, if the issuer has, or is required to have, an audit committee, and approved by the board of directors.

- (b) If the financial statements included in a CPC Information Circular prepared in accordance with Form 3B are those of a private issuer, the Exchange would not expect such an issuer to have an audit committee, but the Exchange will require that the board of directors of that issuer review and approve such financial statements prior to the filing of that CPC Information Circular.

13.8 Amendments to CPC Information Circular

In the event that there is a change in the material information included in a CPC Information Circular between:

- (a) the date of mailing of the notice of meeting, the CPC Information Circular and form of proxy to shareholders, as contemplated by section 12.4, and
- (b) the date of the meeting of shareholders of the CPC,

the CPC shall promptly:

- (c) seek advice of legal counsel in respect of the treatment of such change; and
- (d) provide written notice to the Exchange describing the change in the material information so as to enable the Exchange to determine the applicable treatment of that change.

13.9 Exchange Treatment of Amendments to a CPC Information Circular

After receiving the notice pursuant to section 13.8(d) and any other materials that it may require, the Exchange will advise the CPC as to the conditions that will be required to be satisfied in respect of the treatment of any change in material information included in the CPC Information Circular.

14. Other Requirements

14.1 Exchange Review of Qualifying Transactions

As part of the review of the proposed Qualifying Transaction, the Exchange will review the expenses, disclosure, trading history and other transactions undertaken by the CPC during its listing to determine compliance with Exchange Requirements. The Exchange may refuse to accept the Qualifying Transaction if significant concerns arise from its review, which need not be limited to concerns with the items specifically listed above.

14.2 Share Price

- (a) Generally, where payment of consideration by a CPC for Significant Assets includes the issuance of securities, the Exchange requires that the price per Listed Share to be issued is at least the Discounted Market Price. The total consideration is determined based on the number of securities issued multiplied by the price per share. However, where the proposed Qualifying Transaction is announced following the closing of the IPO but before listing of the shares for trading on the Exchange, the value of the shares to be issued will be based on either:
 - (i) the average closing price of the common shares in each of the first five trading days, less permissible discounts, provided such price is not less than the IPO share price; or
 - (ii) on a predetermined value which must not be less than \$0.20 per share.
- (b) The Exchange will require the exercise price of any stock options granted in connection with a Qualifying Transaction to be the greater of the price per Listed Share of the securities issued on the Qualifying Transaction, the price of any concurrent financing and the Discounted Market Price at the time of announcement of the grant of options.
- (c) The determination of price per share in this section is likely different than the determination of price for the purposes of the Pro forma financial statements

14.3 Inactivity or Failure to Respond to Exchange

- (a) If the CPC Information Circular has not been mailed to shareholders within 75 days after the initial submission to the Exchange of documents required under subsection 12.3 and, in the opinion of the Exchange, the delay is due to the inaction of the CPC, the Vendors or any Target Company, the Exchange may:
 - (i) close its file as “not proceeded with” and require the CPC to issue a news release with respect to the status of the proposed Qualifying Transaction; or
 - (ii) require that an updated CPC Information Circular containing updated material facts and updated financial statements, Geological Reports, valuations or other reports be filed.
- (b) If post-meeting documents required under subsection 12.5 have not been submitted to the Exchange within the time prescribed by the Exchange following the shareholders’ meeting, the Exchange may:
 - (i) require the CPC or the Resulting Issuer to issue a news release explaining the delay; and/or

- (ii) halt or suspend trading in the Listed Shares of the CPC for failure to complete a Qualifying Transaction, pending filing of the post-meeting documents.
- (c) Inactivity may be evidenced by the failure to make reasonable and timely efforts to provide acceptable responses to the comments of the Exchange.

14.4 Multiple Filings

The Exchange will generally not grant conditional acceptance for listing of a CPC where any director or officer of a CPC is associated with more than one other CPC, JCP or VCP that has not yet completed a Qualifying Transaction.

14.5 Consulting Fees

The Exchange may seek the opinion of an independent engineer, appraiser or other expert in determining the reasonableness of a technical report, Geological Report, business valuation or other Expert Report filed with the Exchange. In such circumstances, the Exchange will require the CPC or any Resulting Issuer to pay for the Exchange's costs.

14.6 Trading Halts, Suspension and Delisting

- (a) The Exchange may suspend from trading or delist the Listed Shares of a CPC where the Exchange has not issued a Final Exchange Bulletin to the CPC within 18 months after the date of listing. The Exchange, in its discretion, may extend this period to 24 months after the date of listing.
- (b) The Exchange will halt trading in the Listed Shares of a CPC from the date of announcement of an Agreement in Principle regarding a Qualifying Transaction until all steps referenced in section 2.3(b) have been completed.
- (c) A trading halt may be imposed where the Issuer has not filed the supporting documents required by section 12.3 of this Policy within 75 days after the date of the announcement of the Agreement in Principle. Such halt will remain in effect until either the Exchange receives and reviews the documentation required under this Policy and the CPC Information Circular has been mailed to the shareholders, or the CPC issues a news release disclosing that the proposed Qualifying Transaction is not proceeding.
- (d) As indicated in section 14.3, a trading halt or suspension may also be required when post-meeting documentation is not submitted within the prescribed time.
- (e) If a CPC determines or becomes aware that a proposed Qualifying Transaction will not be proceeding as previously announced, or at all, the CPC must immediately issue a news release in that regard.

- (f) If the CPC or the Sponsor, where applicable, terminate the sponsorship of the proposed Qualifying Transaction, the parties must immediately issue a news release advising of the termination. Trading in the Listed Shares of the CPC will be halted and the halt will remain in effect until a new Sponsor has provided the Exchange with a Sponsorship Acknowledgement Form and a pre-filing conference has been completed.

See *Policy 2.9 - Trading Halts, Suspensions and Delisting*.

14.7 Refusal of Qualifying Transaction

Notwithstanding that a transaction may meet the definition of a Qualifying Transaction, the Exchange may not approve a Qualifying Transaction if the CPC fails to meet the Minimum Listing Requirements upon the completion of the Qualifying Transaction or for any other reason at the sole discretion of the Exchange.

14.8 Pro Group

- (a) Neither the Sponsor nor the Agent nor any of their respective directors, officers, employees or contractors or any Associate or affiliate of the foregoing is permitted to subscribe for Seed Shares or IPO Shares.
- (b) Until Completion of the Qualifying Transaction, the aggregate number of common shares owned directly or indirectly by the Pro Group, or participants referred to in section 14.8(a) above, cannot exceed 20% of the total outstanding Listed Shares of the CPC, excluding securities reserved for issuance at a future date.
- (c) The Exchange will require that any securities issued to the Pro Group, in connection with or in contemplation of the Qualifying Transaction will be required to be subject to a four month Exchange hold period and the securities certificate(s) legended accordingly, as prescribed pursuant to *Policy 3.2 - Filing Requirements and Continuous Disclosure*.

14.9 Reverse Take-Over

The Exchange will not generally permit a Resulting Issuer to conduct a Reverse Take-Over for a period of one -year following Completion of the Qualifying Transaction.

14.10 Compliance with Securities Law

- (a) Participants in the CPC program are reminded that, in addition to complying with the provisions of this Policy, they must also continue to comply with relevant Securities Laws. In particular:

- (i) Participants in the CPC program are reminded of their obligation to comply with OSC Rule 41-501 *General Prospectus Requirements* or the equivalent local rule or instrument allowing for prospectuses prepared in compliance with OSC Rule 41-501.
- (ii) While a potential acquisition may not constitute an Agreement in Principle under this Policy, it may nevertheless trigger additional disclosure obligations under OSC Rule 41-501. In certain circumstances, a CPC's negotiations concerning its Qualifying Transaction may have progressed to a stage where the CPC is proposing to make a "significant probable acquisition" as defined in OSC Rule 41-501, or multiple acquisitions that meet the significance tests of Part 7 of OSC Rule 41-501. Compliance with Parts 6 and 7 of OSC Rule 41-501 would require the CPC to include audited financial statements relating to its proposed acquisitions in the CPC Prospectus.

Staff of the Ontario Securities Commission have confirmed their intention to recommend amendments to the prospectus rule that would exempt CPCs from these requirements. Until such time as such amendments to the prospectus rule become effective, staff of the Ontario, Manitoba and Saskatchewan Commissions have advised that they will recommend granting exemptive relief from these requirements in most cases. Issuers are directed to the exemptive relief provisions at Part 15 of OSC Rule 41-501.

The Alberta Securities Commission has provided for an exemption from the significant probable acquisition test pursuant to ASC Rule 41-501, as amended. Staff of the ASC have advised that they will recommend granting exemptive relief in respect of multiple acquisitions that meet the significance tests.

In British Columbia, additional disclosure relating to significant probable acquisitions or multiple acquisitions that meet the significance tests is not required under BC Instrument 41-501.

- (iii) Management of the CPC and the Resulting Issuer are reminded of their obligations to comply, to the extent applicable, with National Policy No. 31 (Change of Auditor of a Reporting Issuer), National Policy No. 48 (Future Oriented Financial Information) and National Policy No. 51 (Changes in the Ending Date of a Financial Year and in Reporting Issuer Status) and any successor instruments.

- (iv) CPCs or Resulting Issuers which intend to use the CPC Information Circular as an Annual Information Form under Multilateral Instrument 45-102 *Resale of Securities* should refer to the provisions of MI 45-102. Compliance with the requirements of a CPC Information Circular may not satisfy the requirements of MI 45-102 relating to when a circular may be considered to be a current AIF.

14.11 Effect of Exchange Acceptance

Neither review of any proposed Qualifying Transaction and supporting documents, acceptance of any CPC Information Circular or the issuance of a Final Exchange Bulletin should be construed as assurance that the CPC or any Resulting Issuer is in compliance with applicable Securities Laws, including use of any Prospectus or registration exemption or the adequacy of disclosure in any take-over bid circular, offering memorandum or other disclosure document. Similarly, neither review of any proposed Qualifying Transaction and supporting documents, acceptance of any CPC Information Circular or the issuance of a Final Exchange Bulletin should be construed as an assurance as to the merits of the Qualifying Transaction or an investment in the securities of any issuer.

15. CPC Combinations

15.1 CPC Combinations

In order to facilitate certain CPCs in their identification and completion of a Qualifying Transaction, the Exchange will permit:

- (a) the combination of certain CPCs (a “Combination”); and
- (b) a transaction between a CPC and an existing public company (a “Public Company Transaction”);

in connection with the completion of a Qualifying Transaction.

15.2 Eligibility

- (a) The provisions granting CPCs the ability to undertake a Combination or Public Company Transaction are temporary measures intended to assist CPCs that were created in the midst of difficult market conditions. As such, only CPCs that:
 - (i) were issued a receipt for their final CPC Prospectus prior to November 1, 2001; and
 - (ii) have conducted a pre-filing conference with the Exchange,are eligible to undertake a Combination or Public Company Transaction.

15.3 Combination of a Number of CPCs and Completion of an Acceptable Qualifying Transaction

A CPC may undertake a Combination with one or more other CPCs in order to complete a proposed identified Qualifying Transaction subject to the following conditions:

- (a) the CPC must have been listed for a period of at least 12 months prior to effecting the Combination;
- (b) the share exchange ratio among the CPCs must be based on the cash value of the CPCs on a pre-transaction basis;
- (c) the aggregate number of common shares owned directly or indirectly by the Sponsor and its employees upon completion of the Combination and the Qualifying Transaction, cannot exceed 20% of the outstanding shares of the Resulting Issuer;
- (d) an acceptable use of proceeds can be demonstrated for the available cash in the combined CPCs upon Completion of the Qualifying Transaction; and
- (e) the CPC must comply with all the applicable provisions of this Policy including:
 - (i) in the case of sponsored transaction, the Sponsor must comment in the Sponsor report on the reasonableness of any share exchange ratios; and
 - (ii) escrow restrictions. Release of Escrow Shares of the CPC will commence upon issuance of the Final Exchange Bulletin. Transfers within escrow from a CPC's Insiders to new Insiders may be acceptable to the Exchange.

15.4 Combination of a CPC with an Existing Public Company

An existing public company may be permitted to combine with a CPC as a Public Company Transaction subject to the following conditions:

- (a) the CPC must have been listed for a period of at least 12 months prior to effecting the Public Company Transaction;
- (b) the release of the Escrow Shares of the CPC will commence upon issuance of the Final Exchange Bulletin. A transfer within escrow from Insiders of the CPC to existing public company directors, as part of the Public Company Transaction, may be acceptable to the Exchange;
- (c) the share exchange ratio between the CPC and the existing public company must be based on the cash value of the CPC on a pre-transaction basis;
- (d) sponsorship for the transaction will not be required, unless the transaction is part of further transaction where sponsorship requirements would otherwise apply (i.e. COB, RTO and Change of Control);

- (e) the aggregate number of common shares owned directly or indirectly by a Sponsor and its employees upon completion of the transaction must not exceed 20% of the outstanding shares of the Resulting Issuer; and
- (f) shareholder approval requirements applicable to a Qualifying Transaction, as set forth at section 2.3 (g), will apply to the transaction, unless the public company, in compliance with applicable take over bid requirements, acquires at least 90% of the outstanding common shares of the CPC.

15.5 Approval of Securities Regulators

- (a) Junior Capital Pools (“JCPs”) (as opposed to CPCs and Venture Capital Pools (“VCPs”)), are reminded that any waiver of a provision of ASC Rule 46-501 - *Junior Capital Pool Offerings*, requires ASC approval. JCPs are further reminded that the consent of the ASC may also be required in respect of a transfer within escrow.
- (b) Issuers are reminded that if, in the context of a combination transaction, there is a proposed transfer of a control block, exemptive relief from applicable securities regulatory authorities may be necessary. In the event that one of the Issuers has been cease traded, an application to the applicable securities regulatory authority for reactivation may also be necessary.

16. TRANSITION

16.1 Effective Date and Application of Policy

- (a) This amended Policy is effective on June 15, 2002 (the “Effective Date”).
- (b) This Policy applies to any CPC which files a preliminary CPC Prospectus with the Exchange and any applicable Commission on or after the Effective Date.
- (c) A CPC that has filed a preliminary CPC Prospectus prior to the Effective Date will continue to be governed by the predecessor to this Policy, including the Exchange Form of Information Circular (old Form 3A).
- (d) A CPC that has filed a preliminary CPC Prospectus prior to the Effective Date may rely on a provision in this Policy provided that:
 - (i) the CPC obtains prior Exchange approval; and
 - (ii) the CPC issues a detailed press release disclosing the transaction and compliance with the applicable requirements of this Policy.