

BULLETIN TYPE: CORPORATE FINANCE INTERPRETATION NOTE

BULLETIN DATE: March 27, 2001

Re: New Service Standards, Regional Decision Making, CPC Management Standards and Halt Procedures

CDNX issues interpretation notices to provide updates on policies and facilitate communication with members, listed companies and their advisors.

In this initial issue, the following is discussed:

- Policy status and new service standards;
- Regional decision making;
- Management standards for Capital Pool Companies (CPCs); and,
- Halt procedures.

1. Policy Status and New Service Standards

CDNX is in the process of amending its Corporate Finance (CF) policies and will most likely publish amendments within the next few months. Many of these amendments have resulted from public comment and ongoing discussions with the Securities Commissions, members, filing solicitors and listed companies. These amendments are expected to result in improved efficiencies in CDNX service standards, with faster response times.

For example, based on recommendations from the public, CDNX response times will allow CPCs to file a final prospectus within 30 days of the filing of initial materials, and qualifying transactions (QTs) will be completed so that the shareholder vote can be held 75 days after the filing of initial materials. To achieve these improved response times, CF staff will issue initial comment letters on CPCs within seven business days of the filing of initial materials, provided that the filing complies with applicable policies and does not raise significant public policy issues (the "Initial Materials"). CF staff will provide the issuer with approval to mail the QT Information Circulars to its shareholders in the first response letter, issued within 10 business days after the filing of Initial Materials.

To achieve improved service standards, CDNX will rely on sponsorship and the due diligence reviews completed by members. Duplication of reviews will be eliminated with CDNX performing on-going reviews of the sponsor to ensure compliance with the sponsorship requirements. CDNX has performed a number of these reviews and is satisfied with the results to date.

2. Regional Decision Making

CDNX is aware of some confusion in the industry surrounding the authority of regional staff members in exercising discretion for specific filings. For example, a concern was raised that decisions reached with local staff on material issues of structure, valuation, sponsorship and escrow may not be supported in other regions. For clarity, CDNX encourages companies and their professional advisers to pre-file, wherever possible, at the regional level and CDNX will support those decisions across the country. These regional filings will lead to improved service on many filings.

Examples of decisions that can be made locally include discretion to:

- (a) Approve certain pricing variations from CDNX policies for any private placement, stock option, acquisition, etc.;
- (b) Determine whether a particular acquisition constitutes a major or minor acquisition;
- (c) Waive any finders' fee or commission requirements;
- (d) Permit the reservation of more shares as stock options than normally permitted , or revising any stock option vesting schedule;
- (e) Determine whether an acquisition is reviewable,
- (f) Determine whether a transaction constitutes a change of business (COB) or reverse takeover (RTO), or reclassifying such a transaction;
- (g) In the context of any new listing, COB or RTO:
 - i) Waiving any required sponsorship report for COBs and Tier 1 RTOs;
 - ii) Accepting any valuation;
 - iii) Accepting any escrow arrangement; or,
 - iv) Waiving any requirement for shareholder approval.

3. Management Standard for CPCs

CDNX expects CPC management to exhibit a high management standard to ensure there will be a reasonable chance of success for any intended business or enterprise that may be carried out by the CPC. The following is a clarification of the standard that must be met by a prospective CPC board.

In addition to the requirements set out in *Policy 3.1 – Directors, Officers and Corporate Governance*, CDNX requires that the directors and senior officers of the CPC must collectively demonstrate that they will be capable of identifying, investigating and acquiring an appropriate company or asset. In determining the acceptability of each director and senior officer, and the board as a whole, CDNX will review the qualifications, experience, and regulatory history of each proposed member of the board to determine their suitability on an individual basis and in relation to the other members of the board.

CDNX will consider whether the members of the board collectively possess:

- (a) A positive track record with junior companies; evidenced by growth of such companies;
- (b) The ability to raise financing;
- (c) A positive corporate governance and regulatory history;
- (d) Technical experience in the appropriate industry sector, where applicable;
- (e) The ability to locate and develop appropriate acquisition opportunities for companies; and
- (f) Positive experience as directors or officers with public companies in Canada or the United States, evidenced by growth of such companies and/or listing on a senior exchange or quotation system such as the TSE, NASDAQ or NYSE.

An individual who has been associated with a number of public companies with no regulatory problems may not satisfy this new standard. That individual's track record will need to be critically considered to determine whether it satisfies the criteria identified above.

4. Halt Procedures

CDNX has received considerable feedback on the length of certain types of halts in trading which result from current sponsorship requirements related to a QT, COB or RTO.

Where an issuer has been halted pending the issuance of a press release announcing a proposed QT, RTO, or COB, CDNX will now permit trading to resume upon completion of the required disclosure and either:

- (a) Upon the filing of a Sponsorship Acknowledgement Form (SAF) and other supporting documents as required by applicable CDNX policies; or,
- (b) Without the filing of the SAF if the sponsor provides written confirmation that:
 - (i) It has agreed to act as Sponsor,
 - (ii) It has reviewed and has no concerns respecting the requisite Personal Information Forms (PIFs); and,
 - (iii) It has ensured there are arrangements in place whereby the securities held by the directors, officers and insiders of the company or the target company have been deposited into a pooling agreement and the securities will only be released after CDNX acceptance of the preliminary Sponsor Report.

When a Tier 2 company has been halted pursuant to a COB or RTO, and the proposed COB or RTO does not proceed, the company will be required to meet Tier Maintenance Requirements (TMR) or will be designated as Inactive.

CDNX will use its discretion in circumstances where a Tier 2 company's proposed COB or RTO does not proceed and it is unable to satisfy TMR. In those circumstances, CDNX may permit that issuer to resume trading provided that within 90 days after the announcement that the RTO or COB is not proceeding the Tier 2 Company satisfies TMR. If it is unable to satisfy TMR within that time period, it will be designated as Inactive.

When an issuer has been halted pending the public announcement of a proposed QT, RTO or COB, CDNX may continue a halt, even if the requisite preliminary filings are made and the pre-filing conference is held. A halt may be continued for public policy reasons that include:

- (a) The nature of the business of the proposed issuer is unacceptable; or,
- (b) The number of conditions that must be satisfied in order to complete the QT, COB, or RTO, or the nature or number of deficiencies, are significant or numerous.

In order to avoid any unexpected extensions of a halt in trading, CDNX recommends that companies proposing a QT, COB or RTO let CDNX staff know of any issues or concerns at an early stage in the filing process.

Feedback

Companies, members and their professional advisers are encouraged to provide comments and

suggestions to CDNX:

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