

POLICY 4.1

PRIVATE PLACEMENTS

Scope of Policy

A Private Placement occurs when an Issuer issues securities from treasury for cash in reliance upon exemptions from the Prospectus and registration requirements contained in the Securities Laws. The securities may be shares, units or convertible securities. *See Policy 4.3 - Shares for Debt for Exchange Requirements on settling outstanding debt of an Issuer by issuing securities to a creditor.* This Policy discusses the Exchange's requirements for the various types of Private Placements.

The main headings in this Policy are:

1. General
2. Brokered Private Placement of Equity Shares
3. Private Placement of Convertible Securities
4. Private Placement of Special Warrants
5. Amending Warrant Terms
6. Expedited Private Placement Filing System

1. General

An Issuer is required, under its Listing Agreement, to give the Exchange prompt written notice before it issues any securities (including any securities which are convertible into Listed Shares or Voting Shares). The following general requirements apply to all Private Placements of securities. The special requirements for non-brokered or Brokered Private Placements, convertible securities and special warrants follow this general section under separate headings.

1.1 Summary of Procedure

A Private Placement involves the following steps:

Step 1: The Issuer sets the price per security in regard to the Private Placement in compliance with the Exchange's policies by either issuing a comprehensive news release disclosing the terms of the placement or filing a Price Reservation Form (Form 4N). The Issuer should consider whether to request a halt in trading before the news release is issued. If the Issuer uses the Price Reservation Form to set the price, the Issuer must issue a comprehensive news release disclosing the terms of the Private Placement within 3 days of the filing of the Price Reservation Form.

Step 2: The Issuer files a Private Placement Notice Form (Form 4A) with the Exchange within 14 calendar days after the news release.

Step 3: The Exchange reviews the Notice and advises the Issuer of any issues with the Private Placement.

Step 4: The Issuer responds to the Exchange.

Step 5: When the issues have been resolved, the Exchange issues conditional acceptance.

Step 6: Subject to section 1.13, the Private Placement closes.

Step 7: The Issuer files final documentation with the Exchange within 45 days after filing the Notice.

Step 8: The Exchange issues final acceptance of the Private Placement.

A Tier 1 Issuer has the alternative of following TSE Private Placement procedures.

1.2 Interpretation

In this Policy:

“Agreement Day” means the day on which a Private Placement is required to be disclosed under Securities Laws and not later than 3 days following the filing of a Price Reservation Form;

“Conversion Price” means the price per share at which a Convertible Security may be converted into Listed Shares;

“Convertible Security” means a security which is convertible into an Issuer’s Listed Shares;

“Notice” means the written notice of a proposed Private Placement required to be issued by the Issuer to the Exchange as described in section 1(13) of this Policy;

“Placee” means the Person purchasing the securities from the Issuer’s treasury; and

“Private Placement Shares” means the Listed Shares to be purchased by Placees but excludes Listed Shares acquired on the exercise of a Warrant granted in accordance with the provisions under the Warrants heading in section 1(8) or 3(4) of this Policy.

1.3 Exemptions

- (a) The Exchange will exempt a Tier 1 Issuer from the requirements of this Policy if the Tier 1 Issuer requests an exemption and confirms that it will comply with the policies of The Toronto Stock Exchange.
- (b) The Securities Laws regulate how an Issuer can issue securities by way of Private Placement and how Placees can resell their securities. Accordingly, Issuers should consult their own legal counsel and legal counsel in the jurisdiction(s) of the Placees before undertaking a Private Placement to determine whether exemptions are available and what the requirements are.

- (c) The exemptions under the Securities Laws are technical in nature and require strict compliance. The Securities Laws also require the Issuer to prepare and file certain documents. When reviewing a Private Placement, the Exchange does not determine the availability of the exemption(s) relied upon. Exchange Acceptance of a transaction is not assurance that corporate or Securities Laws have been complied with.

1.4 Consideration

The consideration in a Private Placement must be cash paid by the Placee to the Issuer. If the Placee is a creditor of the Issuer, and will receive securities to repay the debt or as consideration for the asset, the transaction is not a Private Placement and the Placee may not receive Warrants.

See Policy 4.3 - Shares for Debt and Policy 5.3 - Acquisitions and Dispositions of Non-Cash Assets.

1.5 Restrictions on Resale of Securities

- (a) Under the Securities Laws, securities issued in a Private Placement under Prospectus exemptions are generally subject to Resale Restrictions. The Resale Restrictions usually require that the securities be held by the Placee for a number of months (a “**hold period**”) and also restrict certain activities in connection with the resale (such as no extraordinary commission and no unusual effort to prepare the market).
- (b) In addition to any Resale Restrictions under the Securities Laws, the Exchange requires that the securities issued to a Placee in a Private Placement be legended with a hold period prohibiting transfer of his or her securities until four months after the date of issuance of the securities.

See Policy 3.2 - Filing Requirements and Continuous Disclosure for certificate legending requirements.

- (c) A Placee may obtain relief from the legend requirement imposed by the Exchange if the Private Placement Shares are subsequently qualified for distribution by a Prospectus.

1.6 Price

In a Private Placement of Listed Shares, the purchase price must be not be less than the Discounted Market Price for those Listed Shares.

See the definition of Discounted Market Price in Policy 1.1 - Interpretation.

1.7 Part and Parcel Pricing Exception

The Exchange may accept the pricing for a Private Placement at the Market Price or Discounted Market Price on the day before the Issuer announces a transaction constituting a Material Change, if the Private Placement and the Material Change were announced in the same news release and the Private Placement is integral to the Material Change. The following conditions must be met at the time Notice is filed with the Exchange:

- (a) The Private Placement funding must be specifically allocated and necessary for the Material Change. A general statement that the funds are for unspecified working capital requirements is not sufficient;
- (b) The Issuer and the Placees (whether Insiders or not) must ensure that they are not breaching the insider trading provisions of the relevant Securities Laws and Policy 3.1 - Directors, Officers and Corporate Governance;
- (c) Warrants cannot be part of a “part and parcel pricing” Private Placement unless:
 - (i) the warrant exercise price is at a significant premium to the Market Price before the announcement (e.g. double the Market Price), or
 - (ii) the Warrants are priced at the Market Price after the Material Change has been announced;

Non-brokered Private Placement

- (d) For a non-brokered Private Placement:
 - (i) the Notice identifies the Placees; and
 - (ii) the Issuer provides satisfactory evidence that the funds from the Private Placement are available and committed to the Issuer subject only to the Exchange’s final acceptance of the Private Placement; and

Brokered Private Placement

- (e) For a Brokered Private Placement, a Member or Participating Organization has agreed to use its best efforts to raise the necessary funds pursuant to a Private Placement within the time period required to fund the Material Change.

1.8 Warrants

- (a) An Issuer can grant a Warrant to purchase additional Listed Shares of the Issuer only if the Warrant is essential to the Private Placement. Private Placements can not be used to settle debts, and Placees who are creditors must not be granted Warrants on that part of their subscription that corresponds to the debt. *See Policy 4.3 - Shares for Debt for Exchange Requirements on settling outstanding debt of an Issuer by issuing securities to a creditor.*

- (b) Other than as contemplated by section 4, all Warrants issued in a Private Placement must be non-transferable. The total number of Listed Shares to be issued on the exercise of the Warrants must not exceed the number of Private Placement Shares. The Exchange will not permit “piggyback” warrants.
- (c) A Warrant issued by a Tier 2 Issuer must expire within two years after the date of issuance of the securities. A Warrant issued by a Tier 1 Issuer must expire within 5 years after the date of the issuance of the securities.
- (d) The exercise price per share of the Warrant must not be less than the Market Price of the Issuer’s Listed Shares at the date the Private Placement was priced.
- (e) The Exchange requirements outlined in section 1(5) under “Restrictions on Resale of Securities” also apply to the Listed Shares issued on the exercise of Warrants.

1.9 Finder’s Fees or Commissions

- (a) The provisions in Policy 5.1 under the headings “Finder’s Fees” and “Commissions” apply to all finder’s fees and commissions proposed to be paid in connection with a Private Placement.

See Policy 5.1 - Loans, Bonuses, Finder’s Fees and Commissions.

- (b) Securities Laws in certain jurisdictions explicitly prohibit a commission or similar payment to be paid for securities issued in reliance on the Prospectus exemptions relating to directors, officers and, in some cases, to employees. The Exchange will not allow Issuers to pay a commission for Private Placements to the Issuer’s directors, officers and employees or to Persons engaged in Investor Relations Activities for the Issuer.

1.10 Shareholder Approval

- (a) If the issuance of the Private Placement Shares and the Listed Shares issued on conversion of a Warrant or Convertible Security will result in, or is part of a transaction involving a Change in Control or change in absolute control ($\geq 50\%$) of the Issuer, the Exchange will require the Issuer to obtain shareholder approval of the Private Placement.
- (b) The shareholder approval may be by ordinary resolution at a general meeting or by the written consent of shareholders holding 50% or more of the issued Listed Shares, so long as they are not the placees nor Related Parties of the Placees.
- (c) The Information Circular of the Issuer for a general meeting must disclose the Private Placement in sufficient detail to permit shareholders to form a reasoned judgement concerning the Private Placement, including the details of the consideration involved and the names of the Placee(s) gaining absolute control or forming a control block. The Issuer must provide a copy of the Information Circular and the minutes of the general meeting to the Exchange.

- (d) If written consent is obtained, the consenting shareholders must have received the same information about the transaction that they would have received in an Information Circular for a meeting considering the proposed Private Placement, and the Issuer must file copies of the consent with the Exchange.
- (e) Issuers should obtain preliminary Exchange Acceptance of the proposed Private Placement before the Information Circular is mailed. If Exchange Acceptance is not obtained in advance, the Information Circular or other disclosure sent to shareholders must clearly state that the proposed transaction is subject to regulatory approval.

1.11 News Releases

- (a) Under the Exchange's Timely Disclosure Policy, a Private Placement is deemed to be a Material Change in the affairs of the Issuer. Accordingly, on the Agreement Day, the Issuer must issue a news release disclosing the material details of the Private Placement, which at a minimum shall include a description of the number and type of securities to be issued and the price per security. If it is a Brokered Private Placement, the news release must include the name of the Agent. In accordance with Policy 3.3 - Timely Disclosure, the Issuer must determine whether to request a halt in trading before the news release is issued.
- (b) All Material Changes in an Issuer's affairs which might affect the trading price of its Listed Shares must be disclosed before the Issuer sets the price of the Private Placement. The Issuer must also disclose any Material Changes which occur during the filing period in accordance with Exchange timely disclosure policies. Any Material Changes can affect the minimum conversion price or price per share permitted by the Exchange.

See sections 1(6) and (7) and the pricing policies below under the headings for different types of Private Placement (Brokered or Convertible Securities)
- (c) If the Issuer's Notice has been deemed withdrawn, or the Private Placement has otherwise been terminated, the Issuer must promptly issue a news release disclosing the material facts of the withdrawal or termination.
- (d) The Issuer must also issue a news release announcing closing of the Private Placement, setting out the expiry dates of the hold period(s) for the securities issued in the Private Placement and a description of any bonus, finder's fee, commission or Agent's Option paid in connection with the Private Placement and, if such fee is paid in securities, a description of the number and type of securities.

1.12 Price Protection

In order to protect the Market Price or Discounted Market Price for a Private Placement, the Issuer must issue a comprehensive news release or file a Price Reservation Form . If a Price Reservation Form is filed, it is required to be followed by a comprehensive news release within 3 days. In order to maintain the price, the Issuer must then file the Notice as described in section 1.13. The Market Price or Discounted Market Price for the Private Placement will normally be calculated based on the last daily closing price of Listed Shares before the news release is issued or the Price Reservation Form is filed.

See the Policy 1.1 - Interpretation for the definitions of Market Price and Discounted Market Price.

1.13 Filing Requirements - Notice

Within 14 calendar days after the date of the news release announcing the Private Placement or the filing of the Price Reservation Form, the Issuer must file with the Exchange:

- (a) a completed Private Placement Notice Form (Form 4A); and
- (b) the applicable fee as prescribed in Policy 1.3 - Schedule of Fees, assuming completion of the minimum Private Placement.

The Exchange will advise the Issuer whether or not the Notice has been conditionally accepted for filing after the Exchange receives the Notice. Generally, the Issuer can close the Private Placement based on this conditional acceptance. However, if any Insiders, members of the Pro Group or placees who will beneficially own or control =5% of the Issuer's total issued and outstanding Listed Shares upon closing subscribe for securities and such Persons were not disclosed in the Notice Form, the Issuer may then only close the subscriptions from those Persons conditionally, subject to Exchange acceptance of those placees.

See section 6 of this Policy - Expedited Private Placement Filing System which may be available to an Issuer undertaking a Private Placement.

1.14 Filing Requirements - Final

Within 45 days after the date the Issuer filed the Notice, the Issuer must submit the following documents to the Exchange:

- (a) a Private Placement Summary Form (Form 4B), completed as appropriate;
- (b) a Private Placement Declaration of Certified Filing Form (Form 4C), completed and executed by a director or senior officer of the Issuer;
- (c) any other information which the Exchange may require; and

- (d) the balance, if any, of the applicable fee as prescribed in Policy 1.3 - Schedule of Fees.

1.15 Failure to File

If the Issuer does not file the documentation set out in section 1.14 within the 45 day period, the Notice will be deemed to have been withdrawn and the Exchange will not issue final acceptance of the transaction. The Exchange will not accept a new Notice from the Issuer disclosing a Private Placement at a lower price per share or conversion price per share than the price specified in the earlier notice with any of the Placees named in a Notice which has been deemed withdrawn unless 30 days have elapsed from the date of the earlier Notice or unless the original Private Placement was brokered.

1.16 Use of Proceeds

The Notice must disclose the proposed use of proceeds, including the estimated working capital on hand as at the preceding month end and an allocation of funds to major expenditure categories. The Exchange can reject a Private Placement if the Notice does not provide adequate information on the allocation of funds or if unallocated funds are excessive. The amount that would be considered excessive will depend on the activities of the Issuer and is not subject to a stated standard. As a guideline, unallocated funds over \$250,000 would generally be considered excessive for an Inactive Issuer. The following are examples of acceptable uses of proceeds:

- (a) corporate overhead for a one year period;
- (b) settlement of current debts (other than to the Placees); and
- (c) a reserve for asset acquisition investigations.

1.17 Corporate Placee Registration System

If a Placee is not an individual, the Exchange requires certain information about the Placee. The Corporate Placee Registration System allows Companies to provide this information to the Exchange on a one time basis. The Placee completes a Corporate Placee Registration Form (Form 4D), which will remain on file with the Exchange. The Form can be referenced for all subsequent Private Placements in which the Placee participates. If any of the information provided in the Form changes, the Placee must notify the Exchange before the Placee participates in further Private Placements with Exchange Issuers. The Corporate Placee Registration Form can be filed with other materials for a specific Private Placement, or on its own.

2. Brokered Private Placement of Equity Shares (Fixed Price)

An Issuer may enter into an agency agreement with a Member, Participating Organization or other acceptable Registrant, with respect to the sale of the Issuer's securities by way of a Private Placement. Except as varied below, all the general provisions in section 1 of this Policy apply.

2.1 Participation by Insiders

The senior officers, directors, Promoters and Control Persons of an Issuer may not acquire more than 10% of the total offering under a Brokered Private Placement.

See Policy 5.1 - Loans, Bonuses, Finder's Fees and Commissions.

2.2 Notice

The Notice of a proposed Brokered Private Placement must include the name of the Agent and the material terms of the agency agreement in addition to the information outlined in section 1(13).

2.3 Agency Agreement

The Issuer must also file with the Exchange a copy of the agency agreement between the Issuer and the Agent.

2.4 Failure to File

If the Issuer does not file all of the required materials within 45 days after the Notice was filed, the Notice will be deemed to have been withdrawn and the Exchange will not issue final acceptance of the transaction. However, unlike non-brokered Private Placements, the Exchange will accept a new Notice from the Issuer disclosing an agreement between the Issuer and the Agent named in the withdrawn Notice at a price per share less than that which was specified in the earlier Notice without any minimum lapse of time.

3. Private Placement of Convertible Securities

3.1 General

- (a) An Issuer may conduct a Private Placement of Convertible Securities. Except as varied below, all the general provisions in section 1 of this Policy apply.
- (b) The Private Placement may be non-brokered or brokered. If it is brokered, the additional requirements outlined in section 2 also apply.
- (c) The Resale Restrictions outlined in section 1(4) of this Policy apply to any disposition of Listed Shares issued when Convertible Securities are exercised.

3.2 Principal and Interest/Dividend Obligations

- (a) The interest or dividend rate which the Convertible Security carries must be consistent with rates generally accepted within the industry.
- (b) The issuance price of securities issued to pay accrued interest on debt owed by the Issuer will be determined by the Market Price of the securities at the time of settlement.

3.3 Conversion Terms

- (a) The minimum conversion price per share in the first two years from the date of issuance of the Convertible Securities must not be less than the Market Price.
- (b) The conversion price per share in each subsequent year must be higher than the conversion price in the preceding year by not less than the following amounts:

Conversion Price (Preceding Year)	Minimum Required Increase in Conversion Price
Up to \$0.50	\$0.05
\$0.51 - \$1.00	\$0.10
\$1.01 - \$2.00	\$0.25
\$2.00 +	\$0.50

- (c) The conversion right must expire within five years after the date of issuance of the Convertible Securities.
- (d) The Exchange can also permit the conversion price to be based on the Market Price at the time of conversion.

3.4 Warrants

- (a) The Issuer may grant Convertible Securities with a Warrant to purchase Listed Shares of the Issuer to a Placee if:
 - (i) the Warrant is essential to the Private Placement; and
 - (ii) either:
 - (A) the Convertible Securities are convertible into units, with each unit consisting of a Listed Share and Warrant where the Warrants are issued with, and are detachable from, the Listed Shares; or
 - (B) the Warrants are issued with, and detachable directly from, the Convertible Security.
- (b) Warrants cannot in any circumstances be issued to settle all or part of a debt.
- (c) The number of Listed Shares which may be issued on exercise of the Warrants must not exceed the total number of Listed Shares which may be issued on conversion of the Convertible Security.

- (d) If Convertible Securities are convertible into units consisting of Listed Shares and Warrants, and the Warrants are detachable from the Listed Shares, the term of the detachable Warrant must expire by the earlier of the last date for exercising the Convertible Securities and two years after the date the Convertible Securities were exercised.
- (e) If Warrants are issued with, and are detachable from the Convertible Securities, the detachable Warrants must expire by the earlier of two years after the date the Convertible Securities were issued and the last date for exercising the Convertible Security.
- (f) The exercise price per share of a Warrant must not be less than the conversion price of the Convertible Securities.

4. Private Placement of Special Warrants

- 4.1 Special warrants are warrants which are issued for cash consideration by an Issuer under a Prospectus exemption. They entitle the holder to acquire Listed Shares or units consisting of Listed Shares and Warrants upon the conversion of the special warrant. No additional consideration is payable by the special warrant holders when the special warrant is converted. The special warrants are usually converted on or immediately after the effective date of a Prospectus which qualifies the issuance of the Listed Shares (and any Warrants) on the conversion of the special warrants.
- 4.2 The Exchange views the Private Placement and conversion of special warrants as a single transaction. The funds received from the original Private Placement are the proceeds in substance of the Prospectus offering.
- 4.3 In addition to the general provisions of this Policy, the following requirements apply to special warrants:
 - (a) the initial news release must describe all the terms, including whether the funds from the Private Placement are to be held in trust until a receipt is issued for the Prospectus, and all details of any penalty clauses;
 - (b) if the special warrants are convertible into units which include transferable Warrants and the conversion will be qualified by a Prospectus, the Warrants must be listed if there are more than 75 Places;
 - (c) the Issuer must have at least 90 days to get its Prospectus receipted before any penalty clause becomes effective;
 - (d) if the terms of a special warrant offering provide for a penalty, the percentage of the penalty will be deducted from the applicable discount in determining the Discounted Market Price; and

- (e) the maximum number of securities which may be issued pursuant to a penalty provision must not exceed 10% of the total number of fully paid securities issued pursuant to the initial special warrant offering.

5. Amending Warrant Terms

5.1 General

The amendment of warrant terms may be considered to be the distribution of a new security under Securities Laws and require exemptions. Issuers should consult legal counsel before applying for an amendment to warrant terms. An Issuer can apply to the Exchange to amend the terms of a Warrant issued pursuant to a Private Placement if it meets the following conditions:

- (a) the Warrants are not listed for trading;
- (b) the exercise price of the Warrants is higher than the current Market Price;
- (c) no Warrants have been exercised within the last six months;
- (d) at least two weeks remain before the expiry date of the Warrants; and
- (e) the Issuer has issued a news release disclosing the terms of the application including the amended price where applicable, to amend the warrant terms.

5.2 Extension of the Warrant Term

The term of a Warrant may only be extended to a date which would have been allowed at the time the Warrants were issued. For example, if a Tier 2 Issuer initially issued a one year warrant, the maximum extension would be one extra year. A Tier 1 Issuer would be permitted an extra four years on a one year warrant.

5.3 Repricing Warrants

Subject to 5.1, the Exchange may consent to an amendment to the exercise price of Warrants in certain circumstances:

- (a) the Issuer originally priced the Warrants higher than the Market Price at the time, and has made application to reprice the Warrants to a price that is equal to or greater than the Market Price at the time the Warrants were granted, or
- (b) the Issuer originally priced the Warrants at the Market Price at the time the Warrants were granted and the Warrants are also amended to shorten the exercise period to a period of 30 days if the closing price of the shares exceeds the revised exercise price by the applicable private placement discount for ten consecutive trading days, ("Premium Trading Days"). The 30 day period will commence 7 calendar days from the tenth Premium Trading Day;

- (c) the amended price is not less than the average closing price for the ten Trading Days before the application for repricing;
- (d) the Warrant price has not previously been amended;
- (e) Insiders hold less than 10% of the total number of Warrants to be repriced;
- (f) all Warrantholders consent to the amendment; and
- (g) if Insiders hold more than 10% of the total number of Warrants, the 10% held by Insiders to be repriced is distributed *pro rata* among Insiders holding Warrants.

5.4 Filing Requirements

To amend Warrant terms, an Issuer must submit to the Exchange the following:

- (a) a completed Warrant Amendment Summary Form and Certification (Form 4E); and
- (b) the applicable fee as prescribed in Policy 1.3 - Schedule of Fees.

6. Expedited Private Placement Filing System

6.1 General

- (a) The Expedited Private Placement Filing System permits Issuers to obtain acceptance of certain smaller transactions without Exchange staff review, by filing a simple form which outlines the terms of the transaction and confirms compliance with this Policy.
- (b) The Issuer must issue a comprehensive news release, or file a Price Reservation Form followed within 3 days by a comprehensive news release, announcing the Private Placement in order to set the Discounted Market Price. An Expedited Private Placement Form 4F must be filed within 45 calendar days after the news release. The Exchange will issue an Exchange Bulletin and will send an acceptance letter to the Issuer or its counsel, generally the business day after the Expedited Private Placement Form is filed.

6.2 Eligibility

To be eligible for the Expedited Private Placement Filing System, a Private Placement must meet all the following requirements:

- (a) at least 50% of the Private Placement Shares are purchased by arm's length parties;
- (b) the Issuer is not an Inactive Issuer;

- (c) the proceeds will be expended on a business or asset in which the Issuer currently has an interest and which has been accepted by the Exchange. The proceeds cannot be expended on a business or asset or interest in a business or asset for which the Issuer has not received Exchange Acceptance;
- (d) the Private Placement does not involve Convertible Securities (other than Warrants);
- (e) no more than 25% of an Issuer's outstanding Listed Shares may be issued on an aggregate basis pursuant to Expedited Private Placement Filings in any fiscal year. (The percentage will be based upon the number of outstanding Listed Shares at the date of the news release);
- (f) the issuance of the securities pursuant to the Private Placement must not create a new control block or absolute control; and
- (g) the limitations on proceeds and shares issued pursuant to the Private Placements do not include commissions. Any commissions must be within the parameters in Policy 5.1 - Loans, Bonuses, Finder's Fees and Commissions.

6.3 Filing Requirements

An Issuer undertaking an Expedited Private Placement Filing must file the following with the Exchange within 45 days after the news release:

- (a) a completed Expedited Private Placement Form (Form 4F); and
- (b) the applicable fee as prescribed in Policy 1.3 - Schedule of Fees.

6.4 Audit

Although the Exchange does not review Expedited Filings as they are submitted, it will undertake an audit process to review selected Expedited Filings after they are processed. If the audit reveals significant problems with an Expedited Filing, the Exchange can prohibit the Issuer from using the Expedited Filing System in the future.