

## 5.1.2 OSC Rule 45-501 Exempt Distributions

**NOTICE OF RULE, POLICY AND FORMS  
UNDER THE SECURITIES ACT  
RULE 45-501 EXEMPT DISTRIBUTIONS  
COMPANION POLICY 45-501CP  
FORM 45-501F1, FORM 45-501F2, FORM 45-501F3**

**AND**

**RESCISSION OF EXISTING RULE 45-501 AND  
COMPANION POLICY 45-501CP AND  
RULE 45-504 PROSPECTUS EXEMPTION FOR  
DISTRIBUTIONS OF SECURITIES  
TO PORTFOLIO ADVISERS ON BEHALF OF FULLY  
MANAGED ACCOUNTS**

### Notice of Rule, Companion Policy and Forms

The Commission has made revised Rule 45-501 *Exempt Distributions* (the "Rule") and Forms 45-501F1, 45-501F2 and 45-501F3 (the "Forms") under section 143 of the *Securities Act* (the "Act").

The Rule, the Forms and the material required by the Act to be delivered to the Minister of Finance were delivered on September 12, 2001. If the Minister approves the Rule, does not reject the Rule and the Forms or return them to the Commission for further consideration, the Rule and the Forms will come into force on November 30, 2001.

The Commission has adopted Companion Policy 45-501 *Exempt Distributions* (the "Policy") under section 143.8 of the Act. The Policy will come into force on the date that the Rule and the Forms come into force.

The Rule replaces existing Rule 45-501 *Exempt Distributions* (the "existing Rule") which came into force on December 22, 1998 and was published in final form at (1999) 22 O.S.C.B. 56. The existing Rule will expire on the date that the Rule comes into force.

On July 13, 2001, the Commission republished a proposed draft of the Rule, together with three proposed Forms and a proposed Companion Policy, at (2001) 24 O.S.C.B. 4247 (the "July Materials"). The Commission received submissions on the July Materials from 5 commentators. The Commission is of the view that none of the revisions to the Rule, including those resulting from the latest comments received on the July Materials, are material. Accordingly, the Rule is not subject to a further comment period. For a summary of these comments and the Commission's response, please see Appendix A to this Notice.

The Rule is intended to replace the existing Rule and to implement the suggestions of the Task Force on Small Business Financing (the "Task Force") as set out in the October 1996 Report of the Task Force as it was presented to the Commission (the "Report"). On May 7, 1999, the Commission published a concept paper entitled "Revamping the Regulation of the Exempt Market" ((1999) 22 O.S.C.B. 2835) (the "Concept Paper") which was based on the recommendations contained in the Report and outlined the Commission's proposals.

On September 8, 2000, the Commission published for comment a proposed draft of the Rule, together with three proposed Forms and a proposed Companion Policy (the "September Materials"). The Commission received submissions on the September Materials from 26 commentators. For a summary of these comments and the Commission's response, please see (2001) 24 O.S.C.B. 2196.

On April 6, 2001, the Commission republished a proposed draft of the Rule, together with three proposed Forms and a proposed Companion Policy, at (2001) 24 O.S.C.B. 2187 (the "April Materials"). The Commission received comments from 17 commentators. For a summary of these comments and the Commission's response, please see (2001) O.S.C.B. 4250.

The Rule will also replace Rule 45-504 *Prospectus Exemption for Distributions of Securities to Portfolio Advisers on Behalf of Fully Managed Accounts* which is being repealed upon the coming into force of the Rule, as its provisions will be incorporated in the Rule.

### Substance and Purpose of the Rule and the Forms

The purpose of revising the existing Rule and Forms is to create an approach to private market regulation that is consistent with the needs of that market and its investors.

The Commission hopes that the new exempt market regime contemplated under the Rule will be viewed as an improvement over the existing exempt market regulations. The existing Rule was introduced as an interim consolidation of the exempt distribution provisions that had previously not been consolidated. The Rule is intended to implement the recommendations of the Task Force as set out in the Report and the views of the staff of the Commission on those recommendations as well as consideration of the views of the many commentators who expressed views on the Concept Paper, the September Materials, the April Materials and the July Materials.

This Notice summarizes minor changes that have been made since the publication of the July Materials. For additional information concerning the background to the Rule, reference should be made to the September Materials and the April Materials. Also, a detailed summary of the Rule may be found in the Notice published with the September Materials at (2000) 23 O.S.C.B. 6205.

### Substance and Purpose of Companion Policy

The purpose of the Policy is to set forth the views of the Commission as to the manner in which the Rule and the provisions of the Act relating to exempt distributions are to be interpreted and applied.

### Summary of Changes to the Rule

There were no material changes made to the Rule from the version published in the July Materials. The Commission has made minor changes to the Rule based on comments received on the July Materials, including the following:

- ! the definition of "closely-held issuer" has been revised to exclude current or former directors

and officers of an issuer or an affiliated entity of an issuer from the 35 security holder limitation;

- ! a new subsection 2.12(2) has been added to expand part of the exemptive relief for sales of private pooled funds to funds managed by a non-resident under an exemption from adviser registration in Rule 35-502 *Non-Resident Advisers*;
- ! a new subsection 2.13(2) has replaced section 3.5 to provide greater consistency in determining the number of purchasers or prospective purchasers for the purposes of the government incentive security exemption in subsection 2.13(1);
- ! sections 6.6 and 6.8 in the July Materials were reconstituted as a single section (section 6.6) in substantially the form of the predecessor section in the existing Rule, to avoid any interpretation that a change was made when none was intended; and
- ! the exempt trade reporting exception in subsection 7.5(7) of the Rule has been expanded to include persons or companies referred to in paragraphs (a) through (d) of section 1.1 of the Rule.

For details of certain other minor changes, please see Appendix A to this Notice.

### Summary of Changes to the Policy

The Policy sets forth the views of the Commission as to the manner in which certain provisions of the Act and the rules relating to exempt distributions are to be interpreted and applied. No material changes have been made to the Policy since the version published in the July Materials.

### Authority for the Rule and Forms

The following sections of the Act provide the Commission with authority to adopt the Rule and Forms. Paragraphs 143(1)8 and 20 authorize the Commission to make rules which provide for exemptions from the registration and prospectus requirements under the Act and for the removal of exemptions from those requirements. Paragraph 143(1)11 authorizes the Commission to make rules regulating the listing or trading of publicly traded securities and paragraph 143(1)13 authorizes the Commission to make rules regulating trading or advising in securities to prevent trading or advising that is fraudulent, manipulative, deceptive or unfairly detrimental to investors. Paragraph 143(1)39 authorizes the Commission to make rules requiring or respecting the media, format, preparation, form, content, execution, certification, dissemination and other use, filing and review of all documents required under or governed by this Act, the regulations or the rules and all documents determined by the regulations or the rules to be ancillary to the documents and paragraph 143(1)43 authorizes the Commission to make rules prescribing fees.

### Related Instruments

The Rule and Policy are related in that they deal with the same subject matter. The Policy is related to Parts XII and XVII of the Act and Parts III and V of the Regulation.

### Conflicting Regulations

In connection with the implementation of the Rule, it is the intention of the Commission to amend the Regulation under the Act to the extent that certain provisions of the Regulation require consequential amendment. The implementation of the Rule requires that the following amendments to the Regulation be made:

1. Subsections 149(1), (2) and (3), which deal with applications for exempt purchaser recognition, will be revoked since the exemptions for persons or companies that are exempt purchasers will no longer be available.
2. The definition of "COATS security" in section 152 of the Regulation will be amended by striking out "or" at the end of clause (d) and adding the following clause:
  - (d.1) a security of a closely-held issuer as such term is defined in section 1.1 of Ontario Securities Commission Rule 45-501 *Exempt Distributions*, or
3. Clause 154(1)(c) refers to the exemptions from the prospectus requirement under clauses 72(1)(a), (c) and (d) of the Act, all of which will no longer be available. Clause 154(1)(c) will be amended to delete the references to these exemptions and to refer to the exemption for accredited investors as set out in the Rule.
4. The definition of "designated institution" in subsection 204(1) of the Regulation will be amended to delete clause (i), which refers to an exempt purchaser, and to add a new clause (i) as follows:
  - (i) a company or a person, other than an individual, that is an accredited investor as defined in section 1.1 of Ontario Securities Commission Rule 45-501 *Exempt Distributions*,
5. Subsection 45(1) of Schedule 1 - Fees will be revoked since applications for exempt purchaser recognition will no longer be accepted. Section 7.6 of the Rule prescribes the amount of fees payable in respect an application for accredited investor recognition.
6. Form 11, Application For Recognition As An Exempt Purchaser will be revoked since the related exemptions from the registration and prospectus requirements will no longer be available.

### Text of Rule

The text of the Rule, the Forms and the Companion Policy and the Forms follows.

## Rescission of Existing Rule

The Rule will result in the rescission of existing Rule 45-501 *Exempt Distributions* and Rule 45-504 *Prospectus Exemption for the Distributions of Securities to Portfolio Advisers on Behalf of Fully Managed Accounts*. The text of the proposed rescission will be as follows:

“Rule 45-501 *Exempt Distributions* is hereby rescinded.”

“Rule 45-504 *Prospectus Exemption for Distributions of Securities to Portfolio Advisers on Behalf of Fully Managed Accounts* is hereby rescinded.”

September 14, 2001.

## APPENDIX A

### SUMMARY OF COMMENTS RECEIVED BY THE COMMISSION ON PROPOSED RULE 45-501 - EXEMPT DISTRIBUTIONS

This is a summary of the comments received by the Commission during the 30 day comment period from July 13, 2001 to August 13, 2001.

The Commission received submissions from five commentators (listed in Schedule A) during the most recent comment period and would like to take this opportunity to thank each of the commentators for their views on this initiative.

#### Comments Regarding the Rule and OSC Responses

Several commentators expressed their support for the Commission's decision to preserve the status quo with respect to the regulation of distributions of pooled funds until such time as it completes a more detailed review of the pooled fund regulatory regime.

Two commentators noted that, by virtue of the definition of “portfolio adviser” combined with the language in subsection 2.12(c), the pooled fund exemption in subsection 2.12(c) does not extend to pooled funds managed by advisers that are not resident in Ontario that are exempt from registration under OSC Rule 35-502 - Non Resident Advisers.

*The definition of “portfolio adviser” has been amended to reflect the above comments.*

One commentator suggested expanding the scope of the government incentive security exemption in section 2.13 to permit an issuer to trade in units comprised of government incentive securities and other securities.

*The Commission does not believe it is appropriate to expand the scope of this exemption. The Task Force recommended the removal of the government incentive security because the exemption raised compliance concerns. The Commission followed the Task Forces's recommendation in the September Materials. However, after considering submissions from the Prospectors and Developers Association of Canada and others (which submissions are more fully discussed in the Notice accompanying the July 13, 2001 publication at 24 OSCB 4256) the Commission reinstated the exemption in the July 13, 2001 publication but only for the narrow purpose of facilitating offerings of flow-through securities.*

One commentator suggested removing the disclosure requirements in subsection 2.13(c) or alternatively requested that the Commission prescribe in the Companion Policy the information it expects in an offering memorandum.

*The Commission is of the view that prospective purchasers of government incentive securities should, among other things, receive an offering memorandum and have access to substantially the same information as that provided in a prospectus. The Commission is of the view that the issuer and its legal advisors are best suited to determine the amount and*

*types of disclosure that an issuer includes in its offering memorandum.*

One commentator suggested retaining the \$150,000 exemption and the private company exemption until “all or most” of the other CSA jurisdictions adopt a similar rule because otherwise it will become increasingly difficult to explain the rules in Canada to non-Canadians.

*The Commission believes that the issue raised by the above commentator is greatly outweighed by the benefits to the Ontario capital markets of implementing the Rule in accordance with the recommendations of the Task Force.*

One commentator suggested modifying the definition of “closely-held issuer” to delete references to securities other than shares, or to reflect debt securities held by non-Canadian financial institutions and accredited investors. The commentator also asked for guidance regarding the nature of the required restrictions.

*The Commission has modified the definition of “closely-held issuer” to address each of these points. First, the requirement for restrictions on transfer will only apply to shares so that debt securities are not affected. Second, the provision has been modified to clarify that the required restriction on transfer is approval by the directors or shareholders of a closely-held issuer.*

One commentator suggested that paragraph (b) of the definition of “closely held issuer” should only relate to persons in Ontario.

*The Commission is of the view that in order for the “closely-held issuer” exemption to be meaningful it must encompass all security-holders of the issuer (other than those specifically excluded in the definition) and not only residents in Ontario.*

One commentator suggested that paragraph (z) of the definition of “accredited investor” should be expanded to allow US institutional investors as well as French, German, Japanese and Italian institutional investors to benefit from the exemptions similar to those referred to in (k) and (x).

*The Commission has amended paragraph (z) to include a reference to paragraph (k). However, the Commission does not believe it is appropriate to include a reference to paragraph (x) because the rules relating to the activities contemplated in paragraph (x) are quite different in other jurisdictions.*

One commentator suggested that paragraph (aa) of the definition of “accredited investor”, like paragraph (v), should only refer to owners in Ontario.

*The purpose of paragraph (aa) is to allow accredited investors to hold their securities indirectly through a holding company; paragraph (aa) is not intended to permit an entity to be formed that would be owned by persons or companies that are not accredited investors, wherever they may reside.*

One commentator suggested expanding paragraph (q) of the definition of “accredited investor” to include grandchildren.

*The Commission decided not to include this group because it is of the view that grandchildren may not have sufficient access to the knowledge of the directors, officers and/or promoters described in paragraph (q) to justify being covered by this exemption.*

One commentator noted that the definition of “exchange issuer” refers to a reporting issuer, and thereby seems to avoid dealing with issuers whose securities are exchangeable into securities of a non-reporting issuer.

*Section 2.7 which provides a prospectus exemption for an “exchange issuer” is simply an extension of subsection 72(1)(h) of the Act and is not intended to deal with non-reporting issuers. This provision has not been modified from the existing Rule.*

One commentator questioned how section 7.3 reflects the Commission’s previously announced 20% fee reduction.

*The 20% fee reduction applies to all fees referred to in the Rule in the same way that the discount applies to all other current rules.*

One commentator suggested that the definition of “related liabilities”, referred to in paragraph (m) of the definition of “accredited investor”, seems inappropriate where a lender takes general security over all assets, since non-financial assets would not be treated equivalently. If non-financial assets do not count as assets then they should not count as liabilities. The commentator suggested ending the sentence after the words “financial assets”.

*The Commission is of the view that a lender taking general security is generally not applicable to individuals; while lenders may take a general security interest over all assets with respect to corporate loans, loans made to individuals are typically either unsecured or secured by charges on fixed assets.*

One commentator suggested that the language in section 2.1(c) should conform to that in section 2.13(d).

*The Commission is of the view that this would not be appropriate as the rationale underlying these exemptions is quite different.*

One commentator suggested that subsection 2.1(2) and the 35 beneficial holders in the “closely-held issuer” definition should have a knowledge (after reasonable inquiry) qualifier on beneficial ownership, as it is often difficult for a company to know or determine the beneficial holders of its securities.

*The Commission is of the view that issuers with share transfer restrictions and limited numbers of security holders should be in a position to readily determine their beneficial owners.*

One commentator suggested that section 2.5 should have a knowledge qualifier regarding defaults.

*The Commission does not believe it is appropriate to make the suggested revision. This section has not changed from the existing Rule.*

One commentator questioned whether section 2.10 should be broadened to cover Canadian school boards and boards of education generally.

*The Commission does not consider this change to be appropriate as it has not received any comments from these entities. However, any of these entities is free to apply for accredited investor status based on its own factual circumstances.*

**Comments Regarding the Companion Policy**

One commentator suggested the Commission clarify the status of National Policy 48 because, according to the commentator, the Companion Policy published on July 13, 2001 suggested that NP 48 is viewed by the Commission as no longer being applicable.

*National Policy Statement 48 - Future Oriented Financial Information is still in effect and applicable. It is currently being reformulated as National Instrument 52-101.*

**Other Comments**

One commentator stated that it is generally impossible to obtain copies of offering memoranda from the Commission or Micromedia and queried whether this is appropriate.

*Offering memoranda are required to be "delivered" rather than "filed" under the existing Rule as well as the Rule. As such, there is no statutory requirement to make offering memoranda publicly available. In these circumstances, Commission staff generally do not place offering memoranda on the public file in situations where these documents are delivered with a request that they remain confidential. The Commission does not believe that this raises a general public interest concern.*

**SCHEDULE A - LIST OF COMMENTATORS**

Investment Funds Institute of Canada  
Marvin Singer  
Simon Romano  
Merrill Lynch Investment Managers  
RT Investment Management Holdings Inc.

**ONTARIO SECURITIES COMMISSION RULE 45-501  
EXEMPT DISTRIBUTIONS**

**PART 1 DEFINITIONS**

**1.1 Definitions** - In this Rule

“accredited investor” means

- (a) a bank listed in Schedule I or II of the Bank Act (Canada), or an authorized foreign bank listed in Schedule III of that Act;
- (b) the Business Development Bank incorporated under the Business Development Bank Act (Canada);
- (c) a loan corporation or trust corporation registered under the Loan and Trust Corporations Act or under the Trust and Loan Companies Act (Canada), or under comparable legislation in any other jurisdiction;
- (d) a co-operative credit society, credit union central, federation of caisses populaires, credit union or league, or regional caisse populaire, or an association under the Cooperative Credit Associations Act (Canada), in each case, located in Canada;
- (e) a company licensed to do business as an insurance company in any jurisdiction;
- (f) a subsidiary of any company referred to in paragraph (a), (b), (c), (d) or (e), where the company owns all of the voting shares of the subsidiary;
- (g) a person or company registered under the Act or securities legislation in another jurisdiction as an adviser or dealer, other than a limited market dealer;
- (h) the government of Canada or of any jurisdiction, or any crown corporation, instrumentality or agency of a Canadian federal, provincial or territorial government;
- (i) any Canadian municipality or any Canadian provincial or territorial capital city;
- (j) any national, federal, state, provincial, territorial or municipal government of or in any foreign jurisdiction, or any instrumentality or agency thereof;
- (k) a pension fund that is regulated by either the Office of the Superintendent of Financial Institutions (Canada) or a provincial pension commission or similar regulatory authority;
- (l) a registered charity under the Income Tax Act (Canada);
- (m) an individual who beneficially owns, or who together with a spouse beneficially own, financial assets having an aggregate realizable value that, before taxes but net of any related liabilities, exceeds \$1,000,000;
- (n) an individual whose net income before taxes exceeded \$200,000 in each of the two most recent years or whose net income before taxes combined with that of a spouse exceeded \$300,000 in each of those years and who, in either case, has a reasonable expectation of exceeding the same net income level in the current year;
- (o) an individual who has been granted registration under the Act or securities legislation in another jurisdiction as a representative of a person or company referred to in paragraph (g), whether or not the individual's registration is still in effect;
- (p) a promoter of the issuer or an affiliated entity of a promoter of the issuer;
- (q) a spouse, parent, grandparent or child of an officer, director or promoter of the issuer;
- (r) a person or company that, in relation to the issuer, is an affiliated entity or a person or company referred to in clause (c) of the definition of distribution in subsection 1(1) of the Act;
- (s) an issuer that is acquiring securities of its own issue;
- (t) a company, limited partnership, limited liability partnership, trust or estate, other than a mutual fund or non-redeemable investment fund, that had net assets of at least \$5,000,000 as reflected in its most recently prepared financial statements;
- (u) a person or company that is recognized by the Commission as an accredited investor;
- (v) a mutual fund or non-redeemable investment fund that, in Ontario, distributes its securities only to persons or companies that are accredited investors;
- (w) a mutual fund or non-redeemable investment fund that, in Ontario, distributes its securities under a prospectus for which a receipt has been granted by the Director;
- (x) a managed account if it is acquiring a security that is not a security of a mutual fund or non-redeemable investment fund;
- (y) an account that is fully managed by a trust corporation registered under the Loan and Trust Corporations Act;

- (z) an entity organized outside of Canada that is analogous to any of the entities referred to in paragraphs (a) through (g) and paragraph (k) in form and function; and
- (aa) a person or company in respect of which all of the owners of interests, direct or indirect, legal or beneficial, are persons or companies that are accredited investors;

“closely-held issuer” means an issuer, other than a mutual fund or non-redeemable investment fund, whose

- (a) shares are subject to restrictions on transfer requiring the approval of either the board of directors or the shareholders of the issuer (or the equivalent in a non-corporate issuer) contained in constating documents of the issuer or one or more agreements among the issuer and holders of its shares; and
- (b) outstanding securities are beneficially owned, directly or indirectly, by not more than 35 persons or companies, exclusive of
  - (i) persons or companies that are, or at the time they last acquired securities of the issuer were, accredited investors; and
  - (ii) current or former directors, officers or employees of the issuer or an affiliated entity of the issuer, or current or former consultants as defined in Rule 45-503 Trades to Employees, Executives and Consultants, who in each case beneficially own only securities of the issuer that were issued as compensation by, or under an incentive plan of, the issuer or an affiliated entity of the issuer;

provided that:

- (A) two or more persons who are the joint registered holders of one or more securities of the issuer shall be counted as one beneficial owner of those securities; and
- (B) a corporation, partnership, trust or other entity shall be counted as one beneficial owner of securities of the issuer unless the entity has been created or is being used primarily for the purpose of acquiring or holding securities of the issuer, in which event each beneficial owner of an equity interest in the entity or each beneficiary of the entity, as the case may be, shall be counted as a separate beneficial owner of those securities of the issuer;

“convertible security” means a security of an issuer that is convertible into, or carries the right of the holder to purchase, or of the issuer to cause the purchase of, a security of the same issuer;

“entity” means a company, syndicate, partnership, trust or unincorporated organization;

“exchangeable security” means a security of an issuer that is exchangeable for, or carries the right of the holder to purchase, or of the exchange issuer to cause the purchase of, a security of another issuer;

“exchange issuer” means an issuer that distributes securities of a reporting issuer held by it in accordance with the terms of an exchangeable security of its own issue;

“financial assets” means cash, securities, or any contract of insurance or deposit or evidence thereof that is not a security for the purposes of the Act;

“government incentive security” means

- (a) a security, or unit or interest in a partnership that invests in a security, that is issued by a company and for which the company has agreed to renounce in favour of the holder of the security, unit or interest, amounts that will constitute Canadian exploration expense, as defined in subsection 66.1(6) of the ITA, or Canadian development expense, as defined in subsection 66.2(5) of the ITA, or Canadian oil and gas property expense, as defined in subsection 66.4(5) of the ITA; or
- (b) a unit or interest in a partnership or joint venture that is issued in order to fund Canadian exploration expense as defined in subsection 66.1(6) of the ITA or Canadian development expense as defined in subsection 66.2(5) of the ITA or Canadian oil and gas property expense as defined in subsection 66.4(5) of the ITA;

“managed account” means an investment portfolio account of a client established in writing with a portfolio adviser who makes investment decisions for the account and has full discretion to trade in securities of the account without requiring the client’s express consent to a transaction;

“multiple convertible security” means a security of an issuer that is convertible into or exchangeable for, or carries the right of the holder to purchase, or of the issuer or exchange issuer to cause the purchase of, a convertible security, an exchangeable security or another multiple convertible security;

“MI 45-102” means Multilateral Instrument 45-102 Resale of Securities;

“portfolio adviser” means

- (a) a portfolio manager; or
- (b) a broker or investment dealer exempted from registration as an adviser under subsection 148(1) of the Regulation if that broker or investment dealer is not exempt from the by-laws or regulations of The Toronto Stock Exchange or the Investment Dealers’ Association of Canada referred to in that subsection;

“Previous Rule” means Rule 45-501 Exempt Distributions as it read when it was published on January 8, 1999 at (1999) 22 OSCB 56;

“related liabilities” means liabilities incurred or assumed for the purpose of financing the acquisition or ownership of financial assets and liabilities that are secured by financial assets;

“spouse”, in relation to an individual, means another individual to whom that individual is married, or another individual of the opposite sex or the same sex with whom that individual is living in a conjugal relationship outside marriage;

“Type 1 trade” means a trade in a security under an exemption from the prospectus requirement in clause 72(1)(a), (b), (c), (d), (l), (m), (p) or (q) of the Act, or section 2.3, 2.12, 2.13 or 2.14 of this Rule, or section 2.4, 2.5 or 2.11 of the Previous Rule;

“Type 2 trade” means a trade in a security under an exemption from the prospectus requirement in clause 72(1)(f) (other than a trade to an associated consultant or investor consultant as defined in Rule 45-503 Trades to Employees, Executives and Consultants), (h), (i), (j), (k) or (n) of the Act, or section 2.5 or 2.8 of this Rule; and

“underlying security” means a security issued or transferred, or to be issued or transferred, in accordance with the terms of a convertible security, an exchangeable security or a multiple convertible security.

## 1.2 Interpretation

- (1) In this Rule a person or company is considered to be an affiliated entity of another person or company if one is a subsidiary entity of the other, or if both are subsidiary entities of the same person or company, or if each of them is controlled by the same person or company.
- (2) In this Rule a person or company is considered to be controlled by a person or company if
  - (a) in the case of a person or company,
    - (i) voting securities of the first-mentioned person or company carrying more than 50 percent of the votes for the election of directors are held, otherwise than by way of security only, by or for the benefit of the other person or company, and
    - (ii) the votes carried by the securities are entitled, if exercised, to elect a majority of the directors of the first-mentioned person or company;
  - (b) in the case of a partnership that does not have directors, other than a limited partnership, the second-mentioned person or company holds more than 50 percent of the interests in the partnership; or

- (c) in the case of a limited partnership, the general partner is the second-mentioned person or company.

- (3) In this Rule a person or company is considered to be a subsidiary entity of another person or company if
  - (a) it is controlled by,
    - (i) that other, or
    - (ii) that other and one or more persons or companies each of which is controlled by that other, or
    - (iii) two or more persons or companies, each of which is controlled by that other; or
  - (b) it is a subsidiary entity of a person or company that is the other’s subsidiary entity.

## PART 2 EXEMPTIONS FROM THE REGISTRATION AND PROSPECTUS REQUIREMENTS OF THE ACT

### 2.1 Exemption for a Trade in a Security of a Closely-held Issuer

- (1) Sections 25 and 53 of the Act do not apply to a trade in a security of a closely-held issuer if
  - (a) following the trade, the issuer will be a closely-held issuer and the aggregate proceeds received by the issuer, and any other issuer engaged in common enterprise with the issuer, in connection with trades made in reliance upon this exemption will not exceed \$3,000,000;
  - (b) no promoter of the issuer has acted as a promoter of any other issuer that has issued a security in reliance upon this exemption within the twelve months preceding the trade; and
  - (c) no selling or promotional expenses are paid or incurred in connection with the trade, except for services performed by a dealer registered under the Act.
- (2) If a trade is made under subsection 2.1(1), the seller shall provide an information statement substantially similar to Form 45-501F3 to the purchaser of the security at least four days prior to the date of the trade unless, following the trade, the issuer will have not more than five beneficial holders of its securities.



**2.2 Exemption for a Trade in a Variable Insurance Contract**

- (1) Sections 25 and 53 of the Act do not apply to a trade by a company licensed under the Insurance Act in a variable insurance contract that is
  - (a) a contract of group insurance;
  - (b) a whole life insurance contract providing for the payment at maturity of an amount not less than three quarters of the premiums paid up to age 75 for a benefit payable at maturity;
  - (c) an arrangement for the investment of policy dividends and policy proceeds in a separate and distinct fund to which contributions are made only from policy dividends and policy proceeds; or
  - (d) a variable life annuity.
- (2) For the purposes of subsection (1), “contract”, “group insurance”, “life insurance” and “policy” have the respective meanings ascribed to them by sections 1 and 171 of the Insurance Act.

**2.3 Exemption for a Trade to an Accredited Investor** - Sections 25 and 53 of the Act do not apply to a trade in a security if the purchaser is an accredited investor and purchases as principal.

**2.4 Exemption for a Trade by a Control Person in a Security Acquired under a Formal Take-Over Bid**

- (1) Section 53 of the Act does not apply to a trade that is a control person distribution in a security that was acquired under a formal bid as defined in Part XX of the Act, if
  - (a) the offeree issuer had been a reporting issuer for at least 12 months at the date of the bid;
  - (b) subject to subsection (2), the intention to make the trade was disclosed in the take-over bid circular for the take-over bid;
  - (c) the trade is made within the period commencing on the date of the expiry of the bid and ending 20 days after that date;
  - (d) a notice of intention and a declaration prepared in accordance with Form 45-102F3 are filed by the seller before the trade;
  - (e) an insider report prepared in accordance with Form 55-102F2 or Form 55-102F6, as applicable, is filed by the seller within three days after the completion of the trade; and

- (f) no unusual effort is made to prepare the market or to create a demand for the securities and no extraordinary commission is paid for the trade.

- (2) Paragraph (1)(b) does not apply to a trade to another person or company that has made a competing formal bid for securities of the same issuer for a per security price not greater than the per security consideration offered by that other person or company in its take-over bid.

**2.5 Exemption for a Trade in Connection with a Securities Exchange Issuer Bid**

- Sections 25 and 53 of the Act do not apply to a trade in a security that is exchanged by or for the account of the offeror with a securityholder of the offeror in connection with an issuer bid as defined in Part XX of the Act if, at the time of the trade, the issuer whose securities are being issued or transferred is a reporting issuer not in default under the Act or the regulations.

**2.6 Exemption for a Trade upon Exercise of Conversion Rights in a Convertible Security**

- Sections 25 and 53 of the Act do not apply to a trade by an issuer in an underlying security of its own issue to a holder of a convertible security or multiple convertible security of the issuer on the exercise by the issuer of its right under the convertible security or multiple convertible security to cause the holder to convert into or purchase the underlying security or on the automatic conversion of the convertible security or multiple convertible security, if no commission or other remuneration is paid or given to others for the trade except for administrative or professional services or for services performed by a registered dealer.

**2.7 Exemption for a Trade upon Exercise of Exchange Rights in an Exchangeable Security**

- Sections 25 and 53 of the Act do not apply to a trade by an exchange issuer in an underlying security to a holder of an exchangeable security or multiple convertible security of the exchange issuer on the exercise by the exchange issuer of its right under the exchangeable security or multiple convertible security to cause the holder to exchange for or purchase the underlying security or on the automatic exchange of the exchangeable security or multiple convertible security, if the exchange issuer delivers to the Commission a written notice stating the date, amount, nature and conditions of the proposed trade, including the net proceeds to be derived by the exchange issuer if the underlying securities are fully taken up and either

- (a) the Commission has not informed the exchange issuer in writing within 10 days after the delivery of the notice that it objects to the proposed trade, or
- (b) the exchange issuer has delivered to the Commission information relating to the

underlying security that is satisfactory to and accepted by the Commission.

**2.8 Exemption for a Trade on an Amalgamation, Arrangement or Specified Statutory Procedure** - Sections 25 and 53 of the Act do not apply to a trade in a security of an issuer in connection with

- (a) a statutory amalgamation or statutory arrangement; or
- (b) a statutory procedure under which one issuer takes title to the assets of another issuer that in turn loses its existence by operation of law or under which one issuer merges with one or more issuers, whether or not the securities are issued by the merged issuer.

**2.9 Exemption for a Trade in a Security under the Execution Act** - Sections 25 and 53 of the Act do not apply to a trade in a security by a sheriff under the Execution Act, if

- (a) there is no published market as defined in Part XX of the Act in respect of the security;
- (b) the aggregate acquisition cost to the purchaser is not more than \$25,000; and
- (c) each written notice to the public soliciting offers for the security or giving notice of the intended auction of the security is accompanied by a statement substantially as follows:

These securities are speculative. No representations are made concerning the securities, or the issuer of the securities. No prospectus is available and the protections, rights and remedies arising out of the prospectus provisions of the Securities Act, including statutory rights of rescission and damages, will not be available to the purchaser of these securities.

**2.10 Exemption for a Trade in Debt of Conseil Scolaire de L'île de Montréal** - Sections 25 and 53 of the Act do not apply to a trade if the security being traded is a bond, debenture or other evidence of indebtedness of the Conseil Scolaire de L'île de Montréal.

**2.11 Exemption for a Trade to a Registered Retirement Savings Plan or a Registered Retirement Income Fund** - Sections 25 and 53 of the Act do not apply to a trade in a security by an individual or an associate of an individual to a RRSP or a RRIF established by or for that individual or under which that individual is a beneficiary.

**2.12 Exemption for Certain Trades in a Security of a Mutual Fund or Non-Redeemable Investment Fund**

(1) Sections 25 and 53 of the Act do not apply to a trade in a security of a mutual fund or non-redeemable investment fund that is not a reporting issuer if

- (a) the purchaser purchases as principal;
- (b) either (i) the security has an aggregate acquisition cost to the purchaser of not less than \$150,000 or (ii) the security is issued by a mutual fund or non-redeemable investment fund in which the purchaser then owns securities having either an aggregate acquisition cost or an aggregate net asset value of not less than \$150,000; and
- (c) the mutual fund or non-redeemable investment fund is managed by a portfolio adviser or a trust corporation registered under the Loan and Trust Corporations Act.

(2) Sections 25 and 53 of the Act do not apply to a trade in a security of a mutual fund or non-redeemable investment fund that is not a reporting issuer if

- (a) the purchaser purchases as principal;
- (b) the security has an aggregate acquisition cost to the purchaser of not less than \$150,000; and
- (c) the mutual fund or non-redeemable investment fund is managed by a person or company, not ordinarily resident in Ontario, to whom the adviser registration requirement does not apply pursuant to Part 7 of Rule 35-502 *Non-Resident Advisers*.

**2.13 Exemption for a Trade by a Promoter or Issuer in a Government Incentive Security**

(1) Sections 25 and 53 of the Act do not apply to a trade by an issuer or by a promoter of an issuer in a security of the issuer that is a government incentive security, if

- (a) in the aggregate in all jurisdictions, not more than 75 prospective purchasers are solicited resulting in sales to not more than 50 purchasers;
- (b) before entering into an agreement of purchase and sale, the prospective purchaser has been supplied with an offering memorandum that includes information
  - (i) identifying every officer and director of the issuer,

- (ii) identifying every promoter of the issuer,
  - (iii) giving the particulars of the professional qualifications and associations during the five years before the date of the offering memorandum of each officer, director and promoter of the issuer that are relevant to the offering,
  - (iv) indicating each of the directors that will be devoting his or her full time to the affairs of the issuer, and
  - (v) describing the right of action referred to in section 130.1 of the Act that is applicable in respect of the offering memorandum;
- (c) the prospective purchaser has access to substantially the same information concerning the issuer that a prospectus filed under the Act would provide and
- (i) because of net worth and investment experience or because of consultation with or advice from a person or company that is not a promoter of the issuer and that is an adviser or dealer registered under the Act, is able to evaluate the prospective investment on the basis of information about the investment presented to the prospective purchaser by the issuer or selling securityholder, or
  - (ii) is a senior officer or director of the issuer or of an affiliated entity of the issuer or a spouse or child of any director or senior officer of the issuer or of an affiliated entity of the issuer,
- (d) the offer and sale of the security is not accompanied by an advertisement and no selling or promotional expenses have been paid or incurred for the offer and sale, except for professional services or for services performed by a dealer registered under the Act; and
- (e) the promoter, if any, has not acted as a promoter of any other issue of securities under this exemption within the calendar year.
- (2) For the purpose of determining the number of purchasers or prospective purchasers under paragraph (1)(a), a corporation, partnership, trust or other entity shall be counted as one purchaser or prospective purchaser unless the entity has been created or is being used primarily for the purpose of purchasing a security of the issuer, in which event each beneficial owner of an equity interest in the entity or each beneficiary of the entity, as the case may be,

shall be counted as a separate purchaser or prospective purchaser.

**2.14 Exemption for a Trade in a Security Distributed under Section 2.13** - Sections 25 and 53 of the Act do not apply to a trade in a security that was previously distributed under the exemption in section 2.13, if each of the parties to the trade is one of the not more than 50 purchasers.

**PART 3 REMOVAL OF CERTAIN EXEMPTIONS FROM THE REGISTRATION AND PROSPECTUS REQUIREMENTS**

**3.1 Removal of Certain Exemptions Generally** - The exemptions from the registration requirement in paragraphs 3, 4, 5, 18 and 21 of subsection 35(1) and paragraph 10 of subsection 35(2) of the Act and the exemptions from the prospectus requirement in clauses (a), (c), (d), (l) and (p) of subsection 72(1) and clause (a) of subsection 73(1) as it relates to paragraph 10 of subsection 35(2) of the Act are not available for a trade in a security.

**3.2 Removal of Exemptions for Bonds, Debentures and Other Evidences of Indebtedness** - The exemption from the registration requirement in subparagraph 1(c) of subsection 35(2) and the corresponding exemption from the prospectus requirement referred to in clause 73(1)(a) of the Act are not available for a trade in a bond, debenture or other evidence of indebtedness that is subordinate in right of payment to deposits held by the issuer or guarantor of the bond, debenture or other evidence of indebtedness.

**3.3 Removal of Exemptions for Securities of a Private Mutual Fund with a Promoter or Manager** - The exemption from the registration requirement in paragraph 3 of subsection 35(2) and the corresponding exemption from the prospectus requirement referred to in clause 73(1)(a) of the Act are not available for trades in a security of a private mutual fund if it is administered by a trust company and there is a promoter or manager of the mutual fund other than the trust company.

**3.4 Removal of Registration Exemptions for Market Intermediaries**

- (1) The exemptions from the registration requirement in sections 2.1, 2.2, 2.3, 2.5, 2.6, 2.7, 2.8, 2.9, 2.12, 2.13 and 2.14 are not available to a market intermediary.
- (2) A limited market dealer may act as a market intermediary in respect of a trade referred to in subsection (1).

#### PART 4 OFFERING MEMORANDUM

- 4.1 Application of Statutory Right of Action** - The right of action referred to in section 130.1 of the Act shall apply in respect of an offering memorandum delivered to a prospective purchaser in connection with a trade made in reliance upon an exemption from the prospectus requirement in section 2.1, 2.3, 2.12 or 2.13.
- 4.2 Description of Statutory Right of Action in Offering Memorandum** – If the seller delivers an offering memorandum to a prospective purchaser in connection with a trade made in reliance upon an exemption from the prospectus requirement in section 2.1, 2.3, 2.12 or 2.13, the right of action referred to in section 130.1 of the Act shall be described in the offering memorandum.
- 4.3 Delivery of Offering Memorandum to Commission** - If an offering memorandum is provided to a purchaser of securities in respect of a trade made in reliance upon an exemption from the prospectus requirement in section 2.1, 2.3, 2.12 or 2.13, the seller shall deliver to the Commission a copy of the offering memorandum within 10 days of the date of the trade.

#### PART 5 DEALER REGISTRATION

- 5.1 Removal of Exemption unless Dealer Registered for Trade Described in the Exemption** - An exemption from the registration requirement or from the prospectus requirement in the Act or the regulations that refers to a registered dealer is not available for a trade in a security unless the dealer is registered in a category that permits it to act as a dealer for the trade described in the exempting provision.

#### PART 6 RESTRICTIONS ON RESALE OF SECURITIES DISTRIBUTED UNDER CERTAIN EXEMPTIONS

- 6.1 Resale of a Security Distributed to a Promoter Under Certain Exemptions** – If a security of an issuer is distributed to a promoter of the issuer under an exemption from the prospectus requirement in section 2.1, 2.3, 2.12, 2.13 or 2.14, the first trade in that security by that promoter is a distribution unless the conditions in subsection (2) or (3) of section 2.8 of MI 45-102 are satisfied.
- 6.2 Resale of a Security Distributed under Section 2.1** – If a security is distributed under the exemption from the prospectus requirement in section 2.1, the first trade in that security, other than a trade referred to in section 6.1, is subject to section 2.6 of MI 45-102.
- 6.3 Resale of a Security Distributed under Section 2.3, 2.12, 2.13 or 2.14** - If a security is distributed under an exemption from the prospectus requirement in section 2.3, 2.12, 2.13 or 2.14, the first trade in that

security, other than a trade referred to in section 6.1, is subject to section 2.5 of MI 45-102.

- 6.4 Resale of a Security Distributed under Clause 72(1)(h) of the Act** - If a security is distributed under the exemption from the prospectus requirement in clause 72(1)(h) of the Act, the first trade in that security, other than a trade to which section 6.5 applies, is subject to section 2.6 of MI 45-102.
- 6.5 Resale of an Underlying Security of a Multiple Convertible Security, Convertible Security or Exchangeable Security Distributed under Certain Exemptions** - If an underlying security is distributed under an exemption from the prospectus requirement on conversion or exchange of a multiple convertible security, convertible security or exchangeable security acquired in a Type 1 trade, the first trade in that underlying security is subject to section 2.5 of MI 45-102.
- 6.6 Resale of a Security Distributed under Section 2.6 or 2.7** – If an underlying security is distributed under an exemption from the prospectus requirement in section 2.6 or 2.7 on a forced conversion or exchange of a multiple convertible security, convertible security or exchangeable security acquired

(a) in a Type 2 trade; or

(b) under an exemption from the prospectus requirement in section 2.2, 3.1, 3.2, 3.3, 5.1 or 8.1 of Rule 45-503 *Trades to Employees, Executives and Consultants*, other than a trade by an associated consultant or investor consultant as defined in Rule 45-503 *Trades to Employees, Executives and Consultants*;

the first trade in that underlying security is subject to section 2.6 of MI 45-102.

- 6.7 Resale of a Security Distributed under Section 2.5 or 2.8** - If a security is distributed under an exemption from the prospectus requirement in section 2.5 or 2.8, the first trade in that security is subject to section 2.6 of MI 45-102.
- 6.8 Resale of a Security Distributed under Section 2.11** – If a security is distributed under the exemption from the prospectus requirement in section 2.11, the first trade in that security is subject to section 2.5 or 2.6 of MI 45-102, whichever section would have been applicable to a first trade in that security by the person or company making the exempt distribution under section 2.11.

**PART 7 FILING REQUIREMENTS AND FEES**

**7.1 Form 45-501F1** - Every report that is required to be filed under subsection 72(3) of the Act or subsection 7.5(1) shall be filed in duplicate and prepared in accordance with Form 45-501F1.

**7.2 Form 45-501F2** - Every report that is required to be filed under subsection 7.5(2) shall be filed in duplicate and prepared in accordance with Form 45-501F2.

**7.3 Fees for Form 45-501F1**

(1) A report filed in Form 45-501F1 shall be accompanied by a fee equal to the greater of

- (a) \$100; and
- (b) subject to subsection (2), the amount calculated using the formula,

$$A + B$$

where

“A” is 0.02 percent of the aggregate gross proceeds realized in Ontario from the distribution of securities, other than special warrants, for which the report filed in Form 45-501F1 is filed, and

“B” is 0.04 percent of the aggregate gross proceeds realized in Ontario from the distribution of special warrants for which the report filed in Form 45-501F1 is filed.

(2) The amount calculated under subsection (1) is considered to be \$100 if the report filed in Form 45-501F1 is filed for,

- (a) a trade in securities if there is no change in beneficial ownership of the securities as a result of the trade;
- (b) a subsequent trade in securities acquired under an exemption from the prospectus requirement in clause 72(1)(b) or (q) of the Act or section 2.3; or
- (c) a subsequent trade in securities acquired prior to November 30, 2001 under an exemption from the prospectus requirement in clause 72(1)(a), (c), (d), (l) or (p) of the Act or section 2.4, 2.5 or 2.11 of the Previous Rule.

**7.4 Fees for Form 45-501F2** - A report filed in Form 45-501F2 shall be accompanied by a fee of \$100.

**7.5 Exempt Trade Reports**

(1) Subject to subsections (7) and (8), if a trade is made in reliance upon an exemption from the

prospectus requirement in section 2.3, 2.13 or 2.14, other than

- (a) a trade to a person or company referred to in paragraphs (p) through (s) of the definition of “accredited investor” in section 1.1, or
- (b) a trade to an entity referred to in paragraph (aa) if all of the owners of interests referred to in that paragraph are persons or companies referred to in paragraphs (p) through (s) of the definition of “accredited investor” in section 1.1,

the seller shall, within 10 days of the trade, file a report in accordance with section 7.1.

(2) If a trade is made in reliance upon the conditions in subsection (2) or (3) of section 2.5 of MI 45-102 being satisfied, the seller shall, within 10 days of the trade, file a report in accordance with section 7.2.

(3) If a trade is made in reliance upon the conditions in subsection (2) or (3) of section 2.8 of MI 45-102 being satisfied, the seller shall comply with the requirements of subsections (4) to (7) of that section.

(4) If a trade is made under section 2.6, the issuer shall file the notice and pay the fees prescribed by section 20 of Schedule 1 to the Regulation as if the underlying security had been acquired in a distribution exempt from section 53 of the Act by subclause 72(1)(f)(iii) of the Act.

(5) If a trade is made under section 2.7, the exchange issuer shall pay the fees prescribed by section 21 of Schedule 1 to the Regulation as if the security had been acquired in a distribution exempt from section 53 of the Act by clause 72(1)(h) of the Act.

(6) If a trade is made under section 2.8, the issuer shall pay the fees prescribed by section 23 of Schedule 1 to the Regulation as if section 23 referred to section 2.8 instead of clause 72(1)(i) of the Act.

(7) A report is not required under subsection (1) where, by a trade under section 2.3, a person or company referred to in paragraph (a), (b), (c) or (d) of section 1.1 acquires from a customer an evidence of indebtedness of the customer or an equity investment in the customer acquired concurrently with an evidence of indebtedness.

(8) Despite subsection (1), a report in respect of a trade in a security of a mutual fund or non-redeemable investment fund made in reliance upon the exemption from the prospectus requirement in section 2.3 may be filed not later than 30 days after the financial

year end of the mutual fund or non-redeemable investment fund.

- 7.6 Fees for Accredited Investor Application** - An application for recognition, or for renewal of recognition, as an accredited investor shall be accompanied by a fee of \$500.
- 7.7 Report of a Trade Made under Section 2.12** - If a trade is made in reliance upon an exemption from the prospectus requirement in section 2.12, the issuer shall, not later than thirty days after the financial year end of the issuer in which the trade occurred, file a report, in duplicate, prepared in accordance with Form 45-501F1 and the report shall be accompanied by a fee calculated in accordance with section 7.3.

#### **PART 8 TRANSITIONAL PROVISIONS**

- 8.1 Accredited Investor Definition Includes Exempt Purchaser** - The definition of "accredited investor" in section 1.1 includes, prior to November 30, 2002, a person or company that is recognized by the Commission as an exempt purchaser.
- 8.2 Resale of a Security Distributed under Section 2.4, 2.5 or 2.11 of the Previous Rule** - If a security was distributed under an exemption from the prospectus requirement in section 2.4, 2.5 or 2.11 of the Previous Rule, the first trade in that security is subject to section 2.5 of MI 45-102.
- 8.3 Resale of an Underlying Security of a Multiple Convertible Security, Convertible Security or Exchangeable Security Distributed under Certain Exemptions in the Previous Rule** - If an underlying security was distributed on conversion or exchange of a multiple convertible security, convertible security or exchangeable security acquired in a distribution under an exemption from the prospectus requirement in section 2.4, 2.5 or 2.11 of the Previous Rule, the first trade in that underlying security is subject to Section 2.5 of MI 45-102.
- 8.4 Resale of a Security Distributed to a Promoter under Section 2.3 or 2.15 of the Previous Rule** - If a security was distributed to a promoter under an exemption from the prospectus requirement in section 2.3 or 2.15 of the Previous Rule, the first trade in that security is a distribution unless the conditions in subsection (2) or (3) of section 2.8 of MI 45-102 are satisfied.
- 8.5 Resale of a Security Distributed under Section 2.9 or 2.10 of the Previous Rule** - If an underlying security was distributed under an exemption from the prospectus requirement in section 2.9 or 2.10 of the Previous Rule on a forced conversion or exchange of a multiple convertible security, convertible security or exchangeable security acquired by the holder in a Type 2 trade, the first trade in that underlying security is subject to section 2.6 of MI 45-102.

- 8.6 Resale of a Security Distributed under Section 2.7, 2.8 or 2.17 or Subsection 2.18(1) of the Previous Rule** - If a security was distributed under an exemption from the prospectus requirement in section 2.7, 2.8 or 2.17 of the Previous Rule, or in subsection 2.18(1) of the Previous Rule after the issuer had ceased to be a private issuer for purposes of the Securities Act (British Columbia), the first trade in that security is subject to section 2.6 of MI 45-102.

#### **PART 9 EFFECTIVE DATE**

- 9.1 Effective Date** - This instrument shall come into force on November 30, 2001.

**FORM 45-501F1**

**Securities Act (Ontario)**

**Report under Section 72(3) of the Act or Section 7.5(1) of Rule 45-501**

(To be used for reports of trades made in reliance upon clause 72(1)(b) or (q) of the Act, or Section 2.3, 2.12, 2.13 or 2.14 of Rule 45-501)

- 1. **Full name and address of the seller.**
- 2. **Full name and address of the issuer of the securities traded.**
- 3. **Description of the securities traded.**
- 4. **Date of the trade(s).**
- 5. **Particulars of the trade(s).**

<u>Name of Purchaser and Municipality and Jurisdiction of Residence</u>	<u>Amount or Number of Securities Purchased</u>	<u>Purchaser Price</u>	<u>Total Purchase Price (Canadian \$)</u>	<u>Exemption Relied Upon</u>
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- 6. **The seller has prepared and certified a statement containing the full legal name and the full residential address of each purchaser identified in section 5 and a certified true copy of the list will be provided to the Commission upon request.**
- 7. **State the name and address of any person acting as agent in connection with trade(s) and the compensation paid or to be paid to such agent.**
- 8. **Calculation of Fees payable upon filing Form 45-501F1: (See section 7.3 of Rule 45-501 Exempt Distributions).**

Total Fees payable: \$

- 9. **Certificate of seller or agent of seller.**

The undersigned seller hereby certifies, or the undersigned agent of the seller hereby certifies to the best of the agent's information and belief, that the statements made in this report are true and correct.

**DATED** at

this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

**(Name of seller or agent - please print)**

**(Signature)**

**(Official capacity - please print)**

**(Please print name of individual whose signature appears above, if different from name of seller or agent printed above)**

**Notice + Collection and Use of Personal Information**

The personal information prescribed by this form is collected on behalf of and used by the Ontario Securities Commission for purposes of administration and enforcement provisions of the securities legislation in Ontario. All of the information prescribed by this form, except for the information contained in the statement required to be prepared and certified by the seller under section 6 of this form, is made available to the public under the securities legislation of Ontario. If you have any questions about the collection and use of this information, contact the Ontario Securities Commission at the address below:

Ontario Securities Commission  
Suite 1903, Box 55,  
20 Queen Street West  
Toronto, Ontario M5H 3S8  
Attention: Administrative Assistant to the Director of Corporate Finance  
Telephone: (416) 593-8200  
Facsimile: (416) 593-8177

**Instructions:**

1. In answer to section 7 give the name of the person or company who has been or will be paid remuneration directly related to the trade(s), such as commissions, discounts or other fees or payments of a similar nature. It is not necessary to include payments for services incidental to the trade such as clerical, printing, legal or accounting services.
2. If the space provided for any answer is insufficient, additional sheets may be used and must be cross-referred to the relevant item and properly identified and signed by the person whose signature appears on the report.
3. Cheques must be made payable to the Ontario Securities Commission in the amount determined in section 8 above.
4. Please print or type and file two signed copies with:

Ontario Securities Commission  
Suite 1900, Box 55,  
20 Queen Street West  
Toronto, Ontario M5H 3S8



**FORM 45-501F2**

**Securities Act (Ontario)  
Report under section 7.5(2) of Rule 45-501**

- 1. **Full name and address of the seller.**
- 2. **Full name and address of reporting issuer whose securities were traded.**
- 3. **Particulars of the trade(s).**

<u>Date of Trade</u>	<u>Type of Security</u>	<u>Amount or Number of Securities Traded</u>	<u>Selling Price</u>
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- 4. **Full name and municipality of residence of the party from whom the seller acquired the securities and the date of acquisition.**
- 5. **Certificate of seller or agent of seller.**

The undersigned seller hereby certifies, or the undersigned agent of the seller hereby certifies to the best of the agent's information and belief, that:

- (1) the information given in this report is true and correct, and
- (2) (a) no unusual effort has been made to prepare the market or create a demand for the securities, and  
(b) no extraordinary commission or consideration has been or has been agreed to be paid in respect of the trade covered by this report.

**Instructions:**

- 1. If the space provided for any answer is insufficient, additional sheets may be used and must be cross-referred to the relevant item and properly identified and signed by the person whose signature appears on the report.
- 2. Cheques must be made payable to the Ontario Securities Commission in the amount prescribed in section 7.4 of Rule 45-501 Exempt Distributions.
- 3. Please print or type and file two signed copies with:

Ontario Securities Commission  
Suite 1900, Box 55,  
20 Queen Street West  
Toronto, Ontario M5H 3S8

DATED at

this \_\_\_\_ day of \_\_\_\_\_, 20 \_\_\_\_.

**(Name of seller or agent - please print)**

**(Signature)**

**(Official capacity - please print)**

**(Please print name of individual whose signature appears above, if different from name of seller or agent printed above)**

**Notice + Collection and Use of Personal Information**

The personal information prescribed by this form is collected on behalf of and used by the Ontario Securities Commission for purposes of administration and enforcement provisions of the securities legislation in Ontario. All of the information prescribed by this form, except for the information contained in the statement required to be prepared and certified by the seller, is made available to the public under the securities legislation of Ontario. If you have any questions about the collection and use of this information, contact the Ontario Securities Commission at the address below:

Ontario Securities Commission  
Suite 1903, Box 55,  
20 Queen Street West  
Toronto, Ontario M5H 3S8  
Attention: Administrative Assistant to the Director of Corporate Finance  
Telephone: (416) 593-8200  
Facsimile: (416) 593-8177

**FORM 45-501F3  
FORM OF INFORMATION STATEMENT**

**Introduction**

Ontario securities laws have been relaxed to make it easier for small businesses to raise start-up capital from the public. Some potential investors may view this change in securities laws as an opportunity to “get in on the ground floor” of emerging businesses and to “hit it big” as these small businesses grow into large ones.

Statistically, most small businesses fail within a few years. Small business investments are among the most risky that investors can make. This information statement suggests matters for you to consider in deciding whether to make a small business investment.

**Risks and Investment Strategy**

A basic principle of investing in a small business is: **NEVER MAKE A SMALL BUSINESS INVESTMENT THAT YOU CANNOT AFFORD TO LOSE IN ITS ENTIRETY.** Never use funds that might be needed for other purposes, such as a post-secondary education, retirement, loan repayment or medical expenses, and never borrow money to make such an investment. Instead use funds that you already have set aside and that otherwise would be used for a consumer purchase, such as a vacation.

Never believe that the investment is not risky. Among other risk factors, small business investments generally are highly illiquid. In particular, until the company goes public there are significant restrictions on the resale of its securities. Even after a small business goes public there may be very little liquidity in its shares. This lack of liquidity means that, if the company takes a turn for the worse or if you suddenly need the funds you have invested in the company, you may not be able to sell your securities.

Also, it is important to realize that, just because the proposed offering of securities is permitted under Ontario securities law does not mean that the particular investment will be successful. Neither the Ontario Securities Commission nor any other government agency evaluates or endorses the merits of investments.

**Analyzing the Investment**

Although there is no magic formula for making successful investment decisions, certain factors are often considered particularly important by professional venture investors. Some questions to consider are as follows:

1. How long has the company been in business?
2. Is management putting itself in a position where it will be accountable to investors? For example, is management taking salaries or other benefits that are too large in light of the company's stage of development? Will outside investors have any voting power to elect representatives to the board of directors?

3. How much experience does management have in the industry and in operating a small business? How successful were the managers in previous businesses?
4. Do you know enough about the industry to be able to evaluate the company and make a wise investment?
5. Does the company have a realistic business plan? Does it have the resources to successfully market its product or service?
6. How reliable is the financial information, if any, that has been provided to you? Is the information audited?
7. Is the company subject to any lawsuits?
8. What are the restrictions on the resale of the securities?

There are many other questions to be answered, but you should be able to answer these before you consider investing. If you have not been provided with the information you need to answer these and any other questions you may have about the proposed investment, make sure that you obtain the information you need from people authorized to speak on the company's behalf (e.g., management or the directors) before you advance any funds or sign any commitment to advance funds to the company. It is generally a good idea to meet with management of the company face-to-face.

**Making Money on Your Investment**

There are two classic methods for making money on an investment in a small business: (1) through resale of the securities in the public securities markets following a public offering; and (2) by receiving cash or marketable securities in a merger or other acquisition of the company.

If the company is the type that is not likely to go public or be acquired within a reasonable time (*i.e.*, a family-owned or closely-held corporation), it may not be a good investment for you irrespective of its prospects for success because of the lack of opportunity to cash in on the investment. Management of a successful private company may receive a return indefinitely through salaries and bonuses but it is unlikely that there will be profits sufficient to pay dividends commensurate with the risk of the investment.

**Conclusion**

When successful, small businesses enhance the economy and provide jobs for its citizens. They also provide investment opportunities. However, an opportunity to invest must be considered in light of the inherently risky nature of small business investments.

In considering a small business investment, you should proceed with caution and make an informed investment decision based on your circumstances and expectations. Above all, never invest more than you can afford to lose.

**COMPANION POLICY 45-501CP TO  
ONTARIO SECURITIES COMMISSION RULE 45-501  
EXEMPT DISTRIBUTIONS**

**PART 1 PURPOSE AND DEFINITIONS**

**1.1 Purpose** - This policy statement sets forth the views of the Commission as to the manner in which certain provisions of the Act and the rules relating to the exemptions from the prospectus and registration requirements are to be interpreted and applied.

**1.2 Definitions** - In this Policy, "private placement exemptions" means the prospectus and registration exemptions available for

- (a) sales of securities of closely-held issuers under section 2.1 of Rule 45-501; and
- (b) sales of securities to accredited investors under section 2.3 of Rule 45-501.

**PART 2 EXEMPTIONS FROM THE REGISTRATION AND PROSPECTUS REQUIREMENTS OF THE ACT**

**2.1 Interaction of Private Placement Exemptions** - The Commission recognizes that a seller of securities may, in connection with any distribution of securities, rely concurrently on more than one private placement exemption. The Commission notes that where the seller is paying or incurring selling or promotional expenses in connection with the distribution, other than for the services of a dealer registered under the Act, the seller may not be able to rely on the exemption in section 2.1. The Commission takes the view that expenses incurred in connection with the preparation and delivery of an offering memorandum do not constitute selling or promotional expenses in this context.

**2.2 Accredited Investor Status For Individuals**

- (1) Paragraph (m) of the "accredited investor" definition in section 1.1 of Rule 45-501 refers to an individual who beneficially owns, or who together with a spouse beneficially own, financial assets having an aggregate net realizable value that, before taxes but net of any related liabilities, exceeds \$1,000,000. As a general matter, it should not be difficult to determine whether financial assets are beneficially owned by an individual, an individual's spouse, or both, in any particular instance. However, financial assets held in a trust or in other types of investment vehicles for the benefit of an individual may raise questions as to whether the individual beneficially owns the financial assets in the circumstances. The Commission is of the view that the following factors are indicative of beneficial ownership of financial assets:

- (a) physical or a constructive possession of evidence of ownership of the financial asset;
- (b) entitlement to receipt of any income generated by the financial asset;
- (c) risk of loss of the value of the financial asset; and
- (d) the ability to dispose of the financial asset or otherwise deal with it as the individual sees fit.

By way of example, securities held in a self-directed RRSP for the sole benefit of an individual would be beneficially owned by that individual. In general, financial assets in a spousal RRSP would also be included for purposes of the threshold test because paragraph (m) takes into account financial assets owned beneficially by a spouse. However, financial assets held in a group RRSP under which the individual would not have the ability to acquire the financial assets and deal with them directly would not meet this beneficial ownership requirement.

- (2) The Commission notes that paragraphs (m) and (n) of the "accredited investor" definition are designed to treat spouses as an investing unit such that either spouse may qualify as an accredited investor if both spouses, taken together, beneficially own the requisite amount of financial assets or earn the requisite net income. As well, it is the Commission's view that the financial asset test and the net income test prescribed in paragraphs (m) and (n), respectively, are to be applied only at the time of the trade such that there is no obligation on the seller to monitor the purchaser's continuing qualification as an accredited investor after the completion of the trade. Furthermore, the Commission considers that the references to "years" and "current year" in paragraph (n) mean calendar years or current calendar year, as applicable.
- (3) Paragraph (q) of the "accredited investor" definition refers to certain family members of an officer or director of the issuer. The Commission notes that officers and directors of an issuer or its affiliated entities are, in effect, treated as accredited investors under Rule 45-503 Trades to Employees, Executives and Consultants.

**2.3 Closely-Held Issuer Exemption**

- (1) The exemption in section 2.1 relating to securities of closely-held issuers is available to the closely-held issuer itself in respect of an issue of its own securities and to any holder of the issuer's securities in respect of a sale of the securities. A closely-held issuer may issue its own securities in reliance upon the exemption in

section 2.1 so long as it is able to meet the criteria for the availability of the exemption in that section. In particular, a closely-held issuer may no longer use the closely-held issuer exemption once it has received aggregate proceeds of \$3,000,000 from trades made in reliance upon the exemption. However, a holder of securities of a closely-held issuer may rely upon the exemption in section 2.1 in connection with any resale of the securities so long as the issuer continues to be a closely-held issuer after the resale. The issuer does not cease to be a closely-held issuer solely because it has raised \$3,000,000 in aggregate proceeds using the exemption.

- (2) The Commission notes that a closely-held issuer will generally be in a position to facilitate the use of the exemption in section 2.1 for the resale of its securities by limiting the number of its security holders through, among other things, use of the share transfer restrictions in its constating documents or in an agreement with its shareholders. Once the issuer no longer meets the closely-held issuer definition, a resale of securities distributed under the exemption in section 2.1 may only be made in reliance upon another exemption or by complying with the relevant provisions of Multilateral Instrument 45-102 Resale of Securities ("MI 45-102").
- (3) The Commission notes that the limitation on the use of the closely-held issuer exemption in paragraph (a) of subsection 2.1(1), which refers to aggregate proceeds of \$3,000,000, is based on the aggregate of all proceeds received by the issuer at any time from trades made in reliance upon the exemption in section 2.1. Proceeds received by the issuer from trades made in reliance upon other exemptions, including exemptions available prior to the date when the exemption in section 2.1 first became available, are not relevant. In particular, the proceeds realized by the issuer from trades to accredited investors need not be included in determining whether the \$3,000,000 threshold would be exceeded in respect of any proposed trade under section 2.1. However, if the issuer has not filed a report on Form 45-501F1 in respect of a trade with an accredited investor where such a filing is required, it will be presumed that the trade was made in reliance upon section 2.1, in which case the proceeds of that trade must be counted for purposes of the aggregate proceeds limit.
- (4) The Commission notes that the term "common enterprise" in paragraph (a) of subsection 2.1(1) is intended to operate as an anti-avoidance mechanism to the extent that multiple business entities are organized for the purposes of financing what is essentially a single business enterprise in order to benefit from continued or excessive use of the closely-held issuer exemption. The Commission takes the view that

commonality of ownership combined with commonality of business plans will be particularly indicative of a "common enterprise".

- (5) The Commission considers that the reference to "the date of the trade" for purposes of the information statement delivery requirement in subsection 2.1(2) means the settlement date or closing date of the trade, as applicable.

**2.4 Sunset of Pooled Fund Rulings** – Prior to the implementation of Rule 45-501 on November 30, 2001, the Commission has granted numerous rulings under subsection 74(1) of the Act providing exemptive relief from the prospectus and registration requirements to pooled fund issuers in respect of, among other things, the sale of additional pooled fund interests to investors that previously purchased pooled fund interests under an exemption. In general, these rulings contained a "sunset" provision stating that the ruling would terminate following the adoption of a rule regarding trades in securities of pooled funds. Rule 45-501 contains a "transitional" exemption in section 2.12 that exempts the sale of securities of a private pooled fund to an investor acquiring at least \$150,000 of such securities and, if the fund's adviser is registered under the Act, the sale of additional securities of the same fund to such an investor. The Commission considers that this transitional pooled fund exemption, together with the accredited investor exemption in section 2.3 of Rule 45-501 which exempts sales of securities to certain types of accredited investors, provide adequate transitional relief from the prospectus and registration requirements for trades in pooled fund interests to investors. OSC Rule 81-501 Mutual Fund Reinvestment Plans also continues to apply to securities of pooled funds that are issued to investors under reinvestment plans whereby distributions of income, capital or capital gains to investors are reinvested in additional securities of that pooled fund. Accordingly, the Commission takes the view that the rulings described above expire upon implementation of Rule 45-501. The Commission considers that section 2.12 is a "transitional" exemption that maintains the status quo for pooled funds until such time as the Commission determines the appropriate regulatory regime for pooled funds.

**2.5 Trades on an Amalgamation, Arrangement or Specified Statutory Procedure** - Clause 72(1)(i) of the Act and section 2.8 of Rule 45-501 provide exemptions for trades in securities in connection with a statutory amalgamation or arrangement or other statutory procedure. The Commission is of the view that the references to statute in these provisions refer to any statute of a jurisdiction or foreign jurisdiction under which the entities involved have been incorporated or created and exist or under which the transaction is taking place.

**2.6 Three-Cornered Amalgamations** - Certain corporate statutes permit a so-called "three-cornered merger or amalgamation" under which two companies will amalgamate or merge and security

holders of the amalgamating or merging entities will receive securities of a third party affiliate of one amalgamating or merging entity. Section 2.8 of Rule 45-501 exempts these trades as the exemption applies to any trade made in connection with an amalgamation or merger.

**2.7 Other Exemptions** - There are various other exemptions from the prospectus and registration requirements that are available to sellers of securities in prescribed circumstances, including Rule 45-503 Trades to Employees, Executives and Consultants which exempts sales of securities of an issuer to its employees and executives, among others. The Commission notes, in particular, that certain exemptions previously contained in Rule 45-501 as it read when it was originally adopted are now contained in MI 45-102. Market participants engaged in the purchase and sale of securities under exemptions from the prospectus and registration requirements should read MI 45-102 together with Rule 45-501 to ensure that they have duly considered all regulatory requirements applicable to exempt distributions of securities in Ontario.

**2.8 Applications for Accredited Investor Recognition** – Paragraph (u) of the “accredited investor” definition in section 1.1 of Rule 45-501 contemplates that a person or company may apply to be recognized by the Commission as an accredited investor. The Commission will consider applications for accredited investor recognition submitted by or on behalf of investors that do not meet any of the other criteria for accredited investor status but nevertheless have the requisite sophistication or financial resources. The Commission has not adopted any specific criteria for granting accredited investor recognition to applicants as the Commission believes that the “accredited investor” definition generally covers all of the types of investors that do not require the protection of the prospectus and registration requirements under the Act. If the Commission considers it appropriate in the circumstances, it may grant accredited investor recognition to an investor on terms and conditions, including a requirement that the investor apply annually for renewal of accredited investor recognition. The Commission notes that section 8.1 of Rule 45-501 provides, as a transitional matter, that a person or company recognized by the Commission as an exempt purchaser will be considered an accredited investor for the remaining term of the recognition order up to one year from the effective date of Rule 45-501. The Commission believes that a person or company previously recognized as an exempt purchaser should have little difficulty qualifying as an accredited investor under Rule 45-501 after its exempt purchaser recognition expires, unless the person or company has experienced a change in its financial circumstances.

### PART 3 CERTIFICATION OF FACTUAL MATTERS

**3.1 Seller’s Due Diligence** - It is the seller’s responsibility to ensure that its trades in securities are made in compliance with applicable securities laws. In the case of a seller’s reliance upon exemptions from the prospectus and registration requirements, the Commission expects that the seller will exercise reasonable diligence for the purposes of determining the availability of the exemption used in any particular circumstances. The Commission will normally be satisfied that a seller has exercised reasonable diligence in relying upon a particular exemption if the seller has obtained statutory declarations or written certifications from the purchasers, unless the seller has knowledge that any facts set out in the declarations or certifications are incorrect. In circumstances where a seller has recently obtained a statutory declaration or a written certification from a purchaser with whom a further trade is being made on an exempt basis, the seller may continue to rely upon the recently obtained statutory declaration or certification unless the seller has reason to believe that the statutory declaration or certification is no longer valid in the circumstances.

### PART 4 OFFERING MEMORANDA

**4.1 Use of Offering Memoranda in Connection with Private Placements**

(1) Part 4 of Rule 45-501 provides for the application of the statutory right of action referred to in section 130.1 of the Act if an offering memorandum is delivered to a prospective investor in connection with a trade made in reliance upon a prospectus exemption in section 2.1, 2.3, 2.12 or 2.13 of Rule 45-501. In this case, the statutory right of action must be described in the offering memorandum and a copy of the offering memorandum must be delivered to the Commission. With the exception of the government incentive security exemption in section 2.13, there is no obligation to prepare an offering memorandum for use in connection with a trade made in reliance upon the above-noted prospectus exemptions. However, business practice may dictate the preparation of offering material that is delivered voluntarily to purchasers in connection with exempt trades under section 2.1, 2.3, or 2.12. This offering material may constitute an “offering memorandum” as defined in Ontario securities law. The statutory right of rescission or damages applies when the offering memorandum is provided mandatorily in connection with an exempt trade made under section 2.13, or voluntarily in connection with exempt trades made under section 2.1, 2.3 or 2.12, including an exempt trade made under section 2.3 to a government or financial institution that is an accredited investor. However, a document delivered in connection with a sale of securities made otherwise than in reliance upon the above-noted exemptions does

not give rise to the statutory right of action or subject the seller to the requirements of Part 4.

- (2) With the exception of an offering memorandum that is provided in respect of a trade in government incentive securities made under the exemption in section 2.13, Ontario securities law generally does not prescribe what an offering memorandum should contain.
- (3) The Commission cautions against the practice of providing preliminary offering material to certain prospective investors before furnishing a "final" offering memorandum unless the material contains a description of the statutory right of action available to purchasers in situations when the statutory right of action applies and a description is required. The only material prepared in connection with the private placement for delivery to investors, other than a "term sheet" (representing a skeletal outline of the features of an issue without dealing extensively with the business and affairs of the issuer), should consist of an offering memorandum describing the statutory right of action and complying in all other respects with Ontario securities law.

staff becomes aware of an offering memorandum that fails to disclose material information relating to the securities that are the subject of the transaction, staff may seek to intervene to effect remedial action.

## **PART 5 RESTRICTIONS ON RESALE OF SECURITIES**

- 5.1 Incorporation of Multilateral Instrument 45-102 Resale of Securities** - Parts 6 and 8 of the Rule imposes resale restrictions on the first trades in securities distributed under certain exemptions from the prospectus requirements. Different types of resale restrictions are imposed depending upon the nature of the prospectus exemption under which the securities were distributed. In each case, the applicable resale restrictions are incorporated by reference to a specific section of MI 45-102. Sellers of securities are reminded that these resale restrictions need not apply if the seller is able to rely upon another prospectus exemption in the Act or in a Commission rule in respect of the resale of the securities in question.

## **PART 6 COMMISSION REVIEW**

- 6.1 Review of Offering Material** - Although sellers of securities who rely upon the private placement exemptions are required to deliver to the Commission copies of offering material that they use in connection with the exempt trades if the offering material constitutes an "offering memorandum" as defined in Ontario securities law, the offering material is not generally reviewed or commented upon by Commission staff.
- 6.2 Other Regulatory Approvals** - Given the self-policing nature of exempt distributions and the fact that offering memoranda are not routinely reviewed by Commission staff, the decision relating to the appropriate disclosure in an offering memorandum rests with the issuer, the selling securityholder and their advisors. If Commission