

ASC. POLICY 4.11
JUNIOR CAPITAL POOL OFFERINGS

1. GENERAL

- (a) This policy applies to junior capital pool offerings made by way of prospectus by junior industrial and natural resource issuers.
- (b) A junior capital pool (the JCP) offering is an offering by an issuer which has no significant assets and/or business, and which has
 - (i) no specific plan for the acquisition of any assets or business, or
 - (ii) a specific plan or plans, but such plan or plans is/are not at the stage of an enforceable agreement, for the acquisition of an asset or business.

Accordingly, it is one in which the investor is invited to rely primarily on the issuer's promoters, directors and officers.

- (c) A JCP offering shall not be permitted if the objective of the issuer includes the acquisition of properties or businesses located outside of Canada. For clarification, the Commission does not intend to prohibit the purchase of assets or rights from parties resident outside Canada when the assets or rights are to be operated or used within Canada. The Commission does intend to prohibit the purchase of assets or rights which are to remain or are to be operated or used outside of Canada. (Revised: November 5, 1987).
- (d) When an issuer has completed a Major Transaction (as defined in item 3(a)), other than a Private Placement (as defined in item 3(a)(iv)), the requirements of this policy no longer apply to the issuer.
- (e) An issuer shall be required to maintain a listing on the Alberta Stock Exchange (the ASE) while it is subject to this policy. Failure to maintain a listing may result in a cease trading order being issued.

2. CERTAIN REQUIREMENTS OF THE PROSPECTUS

The Director (the Director) of the Alberta Securities Commission (the Commission) shall require that the following minimum conditions be present prior to the issuance of a receipt for a prospectus (the Prospectus):

- (a) The offering price to the public shall not be less than \$0.10 per security. (Revised: September 29, 1987).
- (b) The securities being offered must be conditionally approved for listing by the ASE. Written communication from the ASE to the Commission will be required

stating that the application for listing has been made and has been accepted subject to the issuer meeting the requirements for listing on the ASE.

- (c) Other than the initial distribution of the securities pursuant to the Prospectus, trading in all securities of the issuer shall not be permitted during the period between the dated of the receipt for the preliminary prospectus and the time the securities are posted for trading on the ASE.
- (d) All securities of the issuer:
 - (i) beneficially owned, directly or indirectly, at the time of the offering under the Prospectus,
 - (ii) acquired pursuant to the offering under the Prospectus, and
 - (iii) acquired, upon the exercise of options, prior to completion of a Major Transaction

by its promoters, officers, directors, other insiders and associates or affiliates of these persons or companies (the Related Parties) shall be held in escrow pursuant to an agreement in compliance with Form 16 or 17 of the Regulations (the Regulations) under the Alberta Securities Act (the Act). All securities of the issuer acquired in the secondary market prior to a Major Transaction by a Control Person (as defined in item (l)) of the issuer shall also be held in escrow.

- (e) The provisions of the Commission's policies 4.2 and 4.9 shall not apply to JCP offerings.
- (f) Upon the issuer completing a Major Transaction (other than a Private Placement) the escrowed securities referred to in item (d) shall be released as follows:
 - (i) one-third of the escrowed securities on each of the first, second and third anniversaries of the completion of the Major Transaction.

If a Major Transaction (other than a Private Placement) is not completed, the escrowed securities shall not be released.

- (g) The Director may, upon application in writing, permit a transfer of securities within escrow in appropriate cases.
- (h) The issuer shall provide disclosure in the Prospectus of its intended business purpose and objectives.
- (i) The Prospectus shall contain a statement that any Major Transaction shall be submitted to security holders for approval. If the issuer intends to enter into a specific proposed Major Transaction, that transaction shall be identified in the Prospectus and the Prospectus shall also:

- (i) disclose any non-arm's length relationship between the issuer or Related Parties and the principals involved in that transaction,
- (ii) disclose any conflict of interest arising out of the transaction between the issuer, Related Parties and the principals involved in that transaction, and
- (iii) contain sufficient disclosure of material facts relating to the proposed Major Transaction to enable a potential investor to make a reasoned assessment of:
 - A. the nature and magnitude of the proposed Major Transaction,
 - B. the nature and magnitude of the consideration to be given by the issuer in the proposed Major Transaction, and
 - C. the likelihood of completion of the proposed Major Transaction.
- (j) Restrictions on Options to Underwriter or Agent
 - (i) A single non-transferable option or right to subscribe for additional securities may be granted to the underwriter, or agent on an underwritten or a best efforts offering. The securities subject to the option or right shall not exceed 10% of the total number of securities offered. The exercise price per security under an option or right shall not be less than the offering price per security to the public. The exercise period shall not be longer than 18 months from the date of listing on the ASE. Where the option or the right to subscribe for a certain number of shares is granted to the agent or underwriter as consideration for acting as underwriter or agent, 50% of the options exercised or 50% of the shares held pursuant to that right may be sold prior to the completion of the Major Transaction. The remaining 50% may only be sold after the completion of the Major Transaction. In exceptional circumstances, upon application by the agent, the Exchange may vary this requirements. (Revised: September 29, 1987).
- (k) Restrictions on Options to Related Parties
 - (i) The number of securities reserved for issuance to Related Parties under option shall not exceed 10% of the securities to be outstanding after the offering and shall be issued at prices not less than the offering price per security to the public. The granting of subsequent options shall be subject to the rules of the ASE.
- (l) Use of Proceeds
 - (i) At least 70% of all proceeds from the sale of all securities, including proceeds from sales prior to the Prospectus, shall be utilized by the issuer

in pursuit of its intended business purpose and objectives and shall not be used for

- A. agent's fees or commission,
- B. officers' or directors' salaries or other forms of compensation,
- C. legal and audit expenses, listing fees and other costs of the issue of securities, or
- D. administrative and general expenses of the issuer.

(m) Restrictions or Warrants

- (i) Warrants may not be issued pursuant to a Prospectus.

(n) Dilution Factor

- (i) The dilution shall be clearly set out in the Prospectus and shall not exceed 40%. Dilution shall be calculated on the basis of total gross proceeds to the issuer of securities.

- A. to be sold pursuant to the Prospectus, and
- B. sold prior to the filing of the preliminary prospectus

without deduction of related expenses incurred by the issuer. If an offering has a minimum and maximum subscription, the 40% dilution shall be based only on the minimum subscription.

(o) Underwriters and Agents

- (i) Securities distributed by a Prospectus pursuant to this policy shall be sold only be persons or companies registered as either brokers or investment dealers who are active members of the ASE and one of whom shall sign a Certificate of Underwriter (or Agent) in the Prospectus.

(p) In this policy, "Control Person" means any person or company that holds or is one of a combination of persons or companies that holds:

- (i) a sufficient number of securities of an issuer so as to affect materially the control of that issuer, or
- (ii) more than 20% of the outstanding voting securities of an issuer except where there is evidence showing that the holding of those securities does not affect materially the control of the issuer.

3. CERTAIN REQUIREMENTS TO BE MET TO COMPLETE A MAJOR TRANSACTION

- (a) In this policy, the term “Major Transaction” shall include a transaction whereby:
- (i) the issuer issues more than 25% of its issued and outstanding securities prior to the completion of the Major Transaction to acquire assets (other than cash) or securities of another issuer,
 - (ii) the issuer enters into an arrangement, amalgamation, merger or reorganization (the Reorganization) with another issuer whereby the ratio of securities which are distributed to the two sets of security holders results in the security holders of the other issuer acquiring control of the entity arising from the Reorganization,
 - (iii) the issuer acquires significant assets (other than cash) or a business in any way other than as set out in (a)(i) or (a)(ii), or
 - (iv) the issuer issues more than 25% of its issued and outstanding securities prior to the completion of the Major Transaction for cash (a Private Placement).
- (b) Prior to the completion of the Major Transaction or issuance of any securities of the issuer pursuant to the Major Transaction, the issuer shall:
- (i) comply with the by-laws and policies of the ASE respecting notice of a material change,
 - (ii) simultaneously, comply with the provisions of section 118 of the Act,
 - (iii) immediately, or as soon thereafter as the circumstances permit, prepare and submit to the ASE for review by the ASE and information circular prepared in accordance with Form 30 of the Regulations under the Act for the security holders’ meeting described in item (c).
- Item 11 of Form 30 shall contain in full, true and plain disclosure of all material facts related to the particulars of matters to be acted upon and, except in the case of a Private Placement, such disclosure shall be made in accordance with
- A. Form 12 or Form 14 of the Regulations under the Act, as the case may be, or
 - B. the ASE Exchange Offering Prospectus form, upon approval of that form by the Commission, and
 - C. all other applicable requirements of the Act and the Regulations as they apply to the form and content of a prospectus.

- (iv) include in the information circular a certificate executed in accordance with section 90(1)(a) of the Act which certificate shall state:

“The foregoing constitutes full, true and plain disclosure of all material facts relating to particular matters to be acted upon by security holders”.
- (v) in the event that the Major Transaction involves the acquisition of an asset or assets, submit with the information circular, for review by the ASE or its experts, a current independent engineering report, feasibility study or appraisal relating to the asset or assets in such circumstance where such a report, study or appraisal would be required on the filing of a prospectus.

The ASE will review the information circular to satisfy itself that the information contained therein constitutes prospectus level disclosure and that the information circular does not otherwise fail to comply in any substantial respect with the Act and the Regulations thereunder, and

- (vi) upon receiving approval of the information circular (and in certain circumstances approval of the supporting materials referred to in item (v) from the ASE, give notice of a meeting of security holders and pursuant thereto, solicit proxies from security holders of the issuer in accordance with Part 12 of the Act in order to seek security holders’ approval of the Major Transaction.
- (c) Security holders shall be provided the right to approve the Major Transaction on the basis of the application of the “Majority” test, and the information circular shall disclose that the resolution shall be passed by at least 50% plus one vote of the votes cast by security holders who vote at the security holders’ meeting, other than Related Parties to the issuer and Related Parties to the other parties to the Major Transaction.
 - (d) Securities issued in a Major Transaction which are:
 - (i) acquired in a Private Placement by a Control Person (determined after giving effect to the Private Placement), or
 - (ii) acquired by Related Parties other than pursuant to a Private Placement,Shall be held in escrow and shall be released in accordance with item (f)(i).
 - (e) Where securities issued pursuant to a Major Transaction, are issued in exchange for unproven mining properties or other assets of uncertain value, those securities shall be held in escrow and shall be released as to one-third thereof on each of the first, second and third anniversaries of the Major Transaction (other than a Private Placement) provided that the written approval of the ASE is obtained prior to any such release.

4. APPLICATION OF POLICY

- (a) This policy shall apply to all JCP public offerings and issuers, whether or not a receipt for a preliminary prospectus or for a Prospectus has been issued by the Registrar of the Commission prior to the date hereof, in respect of all actions taken by such issuers after this policy comes into effect.

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