

**Form 45-103F1**  
**Offering Memorandum for Non-Qualifying Issuers**

**Date:** [Insert the date from the certificate page.]

**The Issuer**

Name:

Head office:   Address:  
                  Phone #:  
                  E-mail address:  
                  Fax #:

Currently listed or quoted? [Yes/No. If yes, state where, e.g., TSX/TSX Venture Exchange.]

Reporting issuer? [Yes/No. If yes, state where.]

SEDAR filer? [Yes/No]

**The Offering**

Securities offered:

Price per security:

Minimum/Maximum offering: [If there is no minimum, state "\$0" as the minimum and also state: "You may be the only purchaser."]

Payment terms:

Proposed closing date(s):

Tax consequences: There are important tax consequences to these securities. See item 6. [If tax consequences are not material, delete this item.]

Selling agent? [Yes/No. If yes, state "See item 7". The name of the selling agent may also be stated.]

**Resale restrictions**

State: "You will be restricted from selling your securities for [4 months/12 months/an indefinite period]. See item 10."

**Purchaser's rights**

State: "You have 2 business days to cancel your agreement to purchase these securities. If there is a misrepresentation in this offering memorandum, you have the right to sue either for damages or to cancel the agreement. See item 11."

State in bold type:

**"No securities regulatory authority has assessed the merits of these securities or reviewed this offering memorandum. Any representation to the contrary is an offence. This is a risky investment. See item 8."**

[All of the above information must appear on a single cover page.]

**Item 1 Use of Net Proceeds**

1.1 **Net Proceeds** - Using the following table, disclose the net proceeds of the offering. If there is no minimum offering, state "\$0" as the minimum.

		Assuming min. offering	Assuming max. offering
A	Amount to be raised by this offering	\$	\$
B	Selling commissions and fees	\$	\$
C	Estimated offering costs (e.g., legal, accounting, audit.)	\$	\$
D	Net proceeds: D = A - (B+C)	\$	\$

1.2 **Use of Net Proceeds** - Using the following table, provide a detailed breakdown of how the issuer will use the net proceeds. If any of the net proceeds will be paid to a related party, disclose in a note to the table the name of the related party, the relationship to the issuer, and the amount. If the issuer has a working capital deficiency, disclose the portion, if any, of the net proceeds to be applied to the working capital deficiency

Description of intended use of net proceeds listed in order of priority	Assuming min. offering	Assuming max. offering
	\$	\$
	\$	\$

1.3 **Reallocation** - The net proceeds must be used for the purposes disclosed in the offering memorandum. The board of directors can reallocate the proceeds to other uses only for sound business reasons. If the net proceeds may be reallocated, include the following statement:

"We intend to spend the net proceeds as stated. We will reallocate funds only for sound business reasons."

1.4 **Working Capital Deficiency** - State the amount of any working capital deficiency of the issuer as at a date not more than 30 days prior to the date of the offering memorandum. If the working capital deficiency will not be eliminated by the use of net proceeds, state how the issuer intends to eliminate or manage the deficiency.

**Item 2 Business of [name of issuer or other term used to refer to issuer]**

2.1 **Structure** - State the business structure (e.g., partnership, corporation or trust), the statute and the province, state or other jurisdiction under which the issuer is incorporated, continued or organized, and the date of incorporation, continuance or organization.

2.2 **Our Business** - Describe the issuer's business. For a non-resource issuer this may include principal products or services, operations, market and marketing plans and strategies. For a resource issuer this will require a description of principal properties (including interest held) and may include disclosure of the stage of development, reserves,

geology, operations, production and mineral or resource being explored or developed. Generally, this description should not exceed 2 pages.

2.3 **Development of Business** - Describe (generally, in one or two paragraphs) the general development of the issuer's business over at least its two most recently completed financial years and any subsequent period. Include the major events that have occurred or conditions that have influenced (favourably or unfavourably) the development of the issuer.

2.4 **Long Term Objectives** - Disclose the issuer's long term objectives.

2.5 **Short Term Objectives and How We Intend to Achieve Them** -

(a) Disclose the issuer's objectives for the next 12 months.

(b) Using the following table, disclose how the issuer intends to meet those objectives for the next 12 months.

What we must do and how we will do it	Target completion date or, if not known, number of months to complete	Our cost to complete
		\$
		\$
		\$

2.6 **Insufficient Proceeds**

If applicable, disclose that the proceeds of the offering either may not or will not be sufficient to accomplish all of the issuer's proposed objectives and there is no assurance that alternative financing will be available.

2.7 **Material Agreements** - Disclose the key terms of all material agreements

(a) to which the issuer is currently a party, or

(b) with a related party

including the following information:

- (i) if the agreement is with a related party, the name of the related party and the relationship,
- (ii) a description of any asset or property or interest acquired, disposed of, leased, under option, etc.,
- (iii) purchase price and payment terms (e.g., paid in instalments, cash, securities or work commitments),
- (iv) the principal amount of any debenture or loan, the repayment terms, security, due date and interest rate,
- (v) the date of the agreement,
- (vi) the amount of any finder's fee or commission paid or payable to a related party in connection with the agreement, and
- (vii) any material outstanding obligations under the agreement.

### Item 3 **Directors, Management, Promoters and Principal Holders**

3.1 **Compensation and Securities Held** - Using the following table, provide the specified information about each director, officer and promoter of the issuer and each person who,

directly or indirectly, beneficially owns or controls 10% or more of any class of voting securities of the issuer (a “principal holder”). If the principal holder is not an individual, state in a note to the table the name of any person or company that, directly or indirectly, beneficially owns or controls more than 50% of the voting rights of the principal holder.

Name and municipality of principal residence	Positions held (e.g., director, officer, promoter and/or principal holder) and the date of obtaining that position	Compensation paid by issuer in the most recently completed financial year (or, if the issuer has not completed a financial year, since inception) and the compensation anticipated to be paid in the current financial year	Number, type and percentage of securities of the issuer held after completion of min. offering	Number, type and percentage of securities of the issuer held after completion of max. offering

3.2 **Management Experience** - Using the following table, disclose the principal occupations of the directors and senior officers over the past five years. In addition, for each individual, describe any relevant experience in a business similar to the issuer’s.

Name	Principal occupation and related experience

3.3 **Penalties, Sanctions and Bankruptcy**

- (a) Disclose any penalty or sanction (including the reason for it and whether it is currently in effect) that has been in effect during the last 10 years against
  - (i) a director, senior officer or control person of the issuer, or
  - (ii) an issuer of which a person or company referred to in (i) above was a director, senior officer or control person at the time.
- (b) Disclose any declaration of bankruptcy, voluntary assignment in bankruptcy, proposal under any bankruptcy or insolvency legislation, proceedings, arrangement or compromise with creditors or appointment of a receiver, receiver manager or trustee to hold assets, that has been in effect during the last 10 years with regard to any
  - (i) director, senior officer or control person of the issuer, or
  - (ii) issuer of which a person or company referred to in (i) above was a director, senior officer or control person at that time.

**Item 4 Capital Structure**

4.1 **Share Capital** - Using the following table, provide the required information about outstanding securities of the issuer (including options, warrants and other securities convertible into shares). If necessary, notes to the table may be added to describe the material terms of the securities.

Description of security	Number authorized to be issued	Number outstanding as at [a date not more than 30 days prior to the offering memorandum date]	Number outstanding after min. offering	Number outstanding after max. offering

4.2 **Long Term Debt** - Using the following table, provide the required information about outstanding long term debt of the issuer. If the securities being offered are debt securities, add a column to the table disclosing the amount of debt that will be outstanding after both the minimum and maximum offering. If the debt is owed to a related party, indicate that in a note to the table and identify the related party.

Description of long term debt (including whether secured)	Interest rate	Repayment terms	Amount outstanding at [a date not more than 30 days prior to the offering memorandum date]
			\$
			\$

4.3 **Prior Sales** - If the issuer has issued any securities of the class being offered under the offering memorandum (or convertible or exchangeable into the class being offered under the offering memorandum) within the last 12 months, use the following table to provide the information specified. If securities were issued for assets or services, describe in a note to the table the assets or services that were provided.

Date of issuance	Type of security issued	Number of securities issued	Price per security	Total funds received
			\$	\$
			\$	\$
			\$	\$

## Item 5 Securities Offered

5.1 **Terms of Securities** - Describe the material terms of the securities being offered, including:

- (a) voting rights or restrictions on voting,
- (b) conversion or exercise price and date of expiry,
- (c) rights of redemption or retraction, and
- (d) interest rates or dividend rates.

5.2 **Subscription Procedure** -

- (a) Describe how a purchaser can subscribe for the securities and the method of payment.
- (b) State that the consideration will be held in trust and the period that it will be held

- (c) (refer at least to the mandatory two day period).  
Disclose any conditions to closing, e.g., receipt of additional funds from other sources. If there is a minimum offering, disclose when consideration will be returned to purchasers if the minimum is not met.

## **Item 6 Income Tax Consequences and RRSP Eligibility**

- 6.1 State: "You should consult your own professional advisers to obtain advice on the tax consequences that apply to you."
- 6.2 If income tax consequences are a material aspect of the securities being offered (e.g., flow-through shares), provide
- (a) a summary of the significant income tax consequences to Canadian residents, and
  - (b) the name of the person or company providing the tax disclosure in (a).
- 6.3 Provide advice regarding the RRSP eligibility of the securities and the name of the person or company providing the advice or state "Not all securities are eligible for investment in a registered retirement savings plan (RRSP). You should consult your own professional advisers to obtain advice on the RRSP eligibility of these securities."

## **Item 7 Compensation Paid to Sellers and Finders**

If any person or company has or will receive any compensation (e.g., commission, corporate finance fee or finder's fee) in connection with the offering, provide the following information to the extent applicable:

- (a) a description of each type of compensation and the estimated amount to be paid for each type,
- (b) if a commission is being paid, the percentage that the commission will represent of the gross proceeds of the offering (assuming both the minimum and maximum offering),
- (c) details of any broker's warrants or agent's option (including number of securities under option, exercise price and expiry date), and
- (d) if any portion of the compensation will be paid in securities, details of the securities (including number, type and, if options or warrants, the exercise price and expiry date).

## **Item 8 Risk Factors**

Describe in order of importance, starting with the most important, the risk factors material to the issuer that a reasonable investor would consider important in deciding whether to buy the issuer's securities.

Risk factors will generally fall into the following three categories:

- (a) Investment Risk - risks that are specific to the securities being offered. Some examples include
  - arbitrary determination of price,
  - no market or an illiquid market for the securities,
  - resale restrictions, and

- subordination of debt securities.
- (b) Issuer Risk - risks that are specific to the issuer. Some examples include
  - insufficient funds to accomplish the issuer's business objectives,
  - no history or a limited history of sales or profits,
  - lack of specific management or technical expertise,
  - management's regulatory and business track record,
  - dependence on key employees, suppliers or agreements,
  - litigation, and
  - political risk factors.
- (c) Industry Risk - risks faced by the issuer because of the industry in which it operates. Some examples include
  - environmental and industry regulation,
  - product obsolescence, and
  - competition.

## Item 9 Reporting Obligations

- 9.1 Disclose the documents that will be sent to purchasers on an annual or on-going basis.
- 9.2 If corporate or securities information about the issuer is available from a government, regulatory authority, SRO or quotation and trade reporting system, disclose where that information can be located (including website address).

## Item 10 Resale Restrictions

- 10.1 **General Statement** - For trades in Alberta, British Columbia, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Prince Edward Island and Saskatchewan, state:

"These securities will be subject to a number of resale restrictions, including a restriction on trading. Until the restriction on trading expires, you will not be able to trade the securities unless you comply with an exemption from the prospectus and registration requirements under securities legislation."

- 10.2 **Restricted Period** - For trades in Alberta, British Columbia, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Prince Edward Island and Saskatchewan, state one of the following, as applicable:

- (a) If, at the distribution date, the issuer is not:
- (i) a reporting issuer in the Canadian province or territory in which the purchaser resides, and
  - (ii) a SEDAR filer and a reporting issuer in Alberta, British Columbia, Manitoba, Nova Scotia, Ontario, Quebec or Saskatchewan,
- state:

"Unless permitted under securities legislation, you cannot trade the securities before the earlier of the date that is 12 months and a day after the date [name of issuer or other term used to refer to the issuer]

1. becomes a reporting issuer in the Canadian province or territory in which you reside, or
2. first becomes a reporting issuer in Alberta, British Columbia, Manitoba, Nova Scotia, Ontario, Quebec or Saskatchewan, and a SEDAR filer.”

(b) If, at the distribution date, the issuer is not a “qualifying issuer” (as defined under Multilateral Instrument 45-102 *Resale of Securities*) but is a SEDAR filer and a reporting issuer in Alberta, British Columbia, Manitoba, Nova Scotia, Ontario, Quebec or Saskatchewan, state:

“Unless permitted under securities legislation, you cannot trade the securities before the date that is 12 months and a day after the distribution date.”

(c) If, at the distribution date, the issuer is not a “qualifying issuer” and is a reporting issuer in the Canadian province or territory in which the purchaser resides, state:

“Unless permitted under securities legislation, you cannot trade the securities before the date that is 12 months and a day after the distribution date.”

(d) If, at the distribution date the issuer is a “qualifying issuer”, state:

“Unless permitted under securities legislation, you cannot trade the securities before the date that is 4 months and a day after the distribution date.”

10.3 ***Manitoba Resale Restrictions*** - For trades in Manitoba, if the issuer will not be a reporting issuer in a jurisdiction listed in Appendix B of MI 45-102 at the time the security is acquired by the purchaser state:

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“You must not trade the securities without the prior written consent of the regulator in Manitoba unless

- (a) [name of issuer or other term used to refer to issuer] has filed a prospectus with the regulator in Manitoba with respect to the securities you have purchased and the regulator in Manitoba has issued a receipt for that prospectus, or
- (b) you have held the securities for at least 12 months.

The regulator in Manitoba will consent to your trade if the regulator is of the opinion that to do so is not prejudicial to the public interest.”

## **Item 11 Purchasers’ Rights**

State the following:

“If you purchase these securities you will have certain rights, some of which are described below. For information about your rights you should consult a lawyer.

1. **Two Day Cancellation Right** - You can cancel your agreement to purchase these securities. To do so, you must send a notice to us by midnight on the 2<sup>nd</sup> business day after you sign the agreement to buy the securities.



2. **Statutory Rights of Action in the Event of a Misrepresentation** - [Insert this section only if the securities legislation of the jurisdiction in which the trade occurs provides purchasers with statutory rights in the event of a misrepresentation in an offering memorandum. Modify the language, if necessary, to conform to the statutory rights.] If there is a misrepresentation in this offering memorandum, you have a statutory right to sue: (a) [name of issuer or other term used to refer to issuer] to cancel your agreement to buy these securities, or
- (b) for damages against [state the name of issuer or other term used to refer to issuer and the title of any other person or company against whom the rights are available].

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within [state time period provided by the securities legislation]. You must commence your action for damages within [state time period provided by the securities legislation.]

3. **Contractual Rights of Action in the Event of a Misrepresentation** - [Insert this section only if the securities legislation of the jurisdiction in which the purchaser is resident does not provide purchasers with statutory rights in the event of a misrepresentation in an offering memorandum.] If there is a misrepresentation in this offering memorandum, you have a contractual right to sue [name of issuer or other term used to refer to issuer]:
- (a) to cancel your agreement to buy these securities, or
- (b) for damages.

This contractual right to sue is available to you whether or not you relied on the misrepresentation. However, in an action for damages, the amount you may recover will not exceed the price that you paid for your securities and will not include any part of the damages that [name of issuer or other term used to refer to issuer] proves does not represent the depreciation in value of the securities resulting from the misrepresentation. [Name of issuer or other term used to refer to issuer] has a defence if it proves that you knew of the misrepresentation when you purchased the securities.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after you signed the agreement to purchase the securities. You must commence your action for damages within the earlier of 180 days after learning of the misrepresentation and 3 years after you signed the agreement to purchase the securities.”

## **Item 12 Financial Statements**

Include all financial statements required in the offering memorandum immediately before the certificate page of the offering memorandum.

**Item 13      Date and Certificate**

State the following on the certificate page of the offering memorandum:

“Dated [insert the date the certificate page of the offering memorandum is signed].

**This offering memorandum does not contain a misrepresentation.”**

The certificate must be signed by

- (a) the chief executive officer and the chief financial officer of the issuer (or, if the issuer does not have a chief executive officer or a chief financial officer, a person acting in that capacity),
- (b) on behalf of the directors of the issuer
  - (i) by any two directors who are authorized to sign other than the persons referred to in paragraph (a), or
  - (ii) by all the directors of the issuer, and
- (c) by each promoter of the issuer.

Instructions for Completing  
Form 45-103F1  
*Offering Memorandum for Non-Qualifying Issuers*

**A. General Instructions**

1. Draft the offering memorandum so that it is easy to read and understand. Be concise and use clear, plain language. Avoid technical terms. If technical terms are necessary, provide definitions.
2. Address the items required by the form in the order set out in the form. However, it is not necessary to provide disclosure about an item that does not apply.
3. The issuer may include additional information in the offering memorandum other than that specifically required by the form. However, the offering memorandum is generally not required to contain the level of detail and extent of disclosure required by a prospectus.
4. The issuer may wrap the offering memorandum around a prospectus or similar document. However, all matters required to be disclosed by the offering memorandum must be addressed and the offering memorandum must provide a cross-reference to the page number or heading in the wrapped document where the relevant information is contained. The certificate to the offering memorandum must be modified to indicate that the offering memorandum, including the document around which it is wrapped, does not contain a misrepresentation.
5. It is an offence to make a misrepresentation in the offering memorandum. This applies both to information that is required by the form and to additional information that is provided.
6. If the issuer is a limited partnership or trust, where the offering memorandum form requires disclosure about “directors”, provide disclosure for the general partner(s) and trustee(s). If a general partner or trustee is a corporation, state the names of the directors of the general partner or trustee.
7. When the term “related party” is used in this form, it refers to:
  - (a) a director, officer, promoter or control person of the issuer,
  - (b) in regard to a person referred to in (a), a child, parent, grandparent or sibling, or other relative living in the same residence,
  - (c) in regard to a person referred to in (a) or (b), his or her spouse or a person with whom he or she is living in a marriage-like relationship,
  - (d) an insider of the issuer,
  - (e) a company controlled by one or more individuals referred to in (a) to (d), and
  - (f) in the case of an insider, promoter or control person that is not an individual, any person or company that controls that insider.

(If the issuer is not a reporting issuer, the reference to “insider” includes persons or companies who would be insiders of the issuer if that issuer were a reporting issuer.)

8. Refer to National Instrument 43-101 *Standards of Disclosure for Mineral Projects* (NI 43-101) when disclosing scientific or technical information for a mineral project of the issuer.

9. Securities legislation restricts what can be told to investors about the issuer's intent to list or quote securities on an exchange or market. Refer to applicable securities legislation before making any such statements.
10. If an issuer uses this form in connection with a distribution under an exemption other than section 4.1 of Multilateral Instrument 45-103 *Capital Raising Exemptions*, the issuer must modify the disclosure in item 11 to correctly describe the purchaser's rights. If a purchaser does not have statutory or contractual rights of action in the event of a misrepresentation in the offering memorandum, that fact must be stated in bold on the face page.

## **B. Financial Statements - General**

1. Any financial statements included in the offering memorandum must be prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). Differential reporting, as discussed in section 1300 of the CICA Handbook, is not acceptable for financial statements of either the issuer or of a business for which financial statements are required in the offering memorandum.
2. Include all financial statements required in the offering memorandum immediately prior to the certificate page of the offering memorandum.
3. If the issuer has not completed one financial year, include the following financial statements of the issuer in the offering memorandum:
  - (a) statements of income, retained earnings and cash flows for the period from inception to a date not more than 60 days before the date of the offering memorandum, and
  - (b) a balance sheet dated as at the ending date of the statements required by B.3(a).
4. If the issuer has completed one or more financial years, include the following financial statements of the issuer in the offering memorandum:
  - (a) statements of income, retained earnings and cash flows for the most recently completed financial year that ended more than 120 days before the date of the offering memorandum,
  - (b) a balance sheet as at the last day of the most recently completed financial year that ended more than 120 days before the date of the offering memorandum,
  - (c) statements of income, retained earnings and cash flows for the most recently completed 3, 6 or 9 month interim period that ended more than 60 days before the date of the offering memorandum, and ended after the date of the financial statements required under B.4(a), and
  - (d) a balance sheet dated as at the ending date of the statements required by B.4(c).
5. If financial statements of the issuer for a more recent annual or interim period than those required by B.3 or B.4 have been prepared, include those more recent financial statements in the offering memorandum.
6. If the issuer has changed its year end, refer to National Policy 51 *Changes in the Ending Date of a Financial Year and in Reporting Status* for guidance concerning interim periods in a transition year. Financial statements for the most recently completed interim period in a

transition year should be provided to satisfy B.4(c).

7. If the issuer has completed two or more financial years that ended more than 120 days from the date of the offering memorandum, the annual financial statements required under B.4(a) and (b) must include comparatives for the prior year. The interim financial statements required under B.4(c) and (d) may exclude comparatives if financial statements for the comparative periods were not previously prepared.
8. The annual financial statements required under B.4(a) and (b) must be audited in accordance with Canadian generally accepted auditing standards (Canadian GAAS) and the audit report must be included in the offering memorandum. The financial statements required under B.3, B.4(c) and (d) and B.5 and the comparatives required by B.6 may be unaudited; however, if any of those financial statements have been audited, the audit report on them must be included in the offering memorandum.
9. Each page of any unaudited financial statements must indicate in bold that the financial statements have not been audited.
10. If the offering memorandum does not contain audited financial statements for the issuer's most recently completed financial year, update the offering memorandum to include the annual audited financial statements and the audit report as soon as the issuer has approved the audited financial statements, but in any event no later than the 120<sup>th</sup> day following the financial year end.
11. The offering memorandum does not have to be updated to include interim financial statements for periods completed after the date 60 days prior to the date of the offering memorandum. However, it may be necessary to include the interim financial statements in the offering memorandum to prevent the offering memorandum from containing a misrepresentation.
12. Refer to National Policy 48 *Future Oriented Financial Information* if future oriented financial information is included in the offering memorandum.
13. If the issuer is a limited partnership, include in the offering memorandum the financial statements required by Part B of the general partner and, if the limited partnership has active operations, of the limited partnership.

### **C. Financial Statements - Business Acquisitions**

1. If the issuer
  - (a) has acquired a business during the past two years and the audited and/or unaudited consolidated financial statements of the issuer included in the offering memorandum do not include the results of the acquired business for 12 consecutive months, or
  - (b) is proposing to acquire a business and either:
    - (i) is obligated to complete the acquisition, or
    - (ii) has the right to acquire the business and has decided to complete the acquisition,include the financial statements for the business if the test in C.2 is met, irrespective of how the issuer accounts for the acquisition.

2. Include the financial statements for a business referred to in C.1 if either:
  - (a) the issuer's proportionate share of the consolidated assets of the business exceeds 50% of the consolidated assets of the issuer calculated using the most recent annual financial statements of each of the issuer and the business before the date of the acquisition or proposed date of acquisition, or
  - (b) the issuer's consolidated investments in and advances to the business as at the date of the acquisition or the proposed date of acquisition exceeds 50% of the consolidated assets of the issuer as at the end of the issuer's most recently completed financial year that ended before the date of the acquisition or proposed date of acquisition.
3. Where an issuer or a business referred to in C.1 has not yet completed a financial year or has completed its first financial year that ended within 120 days of the offering memorandum date and financial statements for that year are not yet available, use the financial statements referred to in B.3(b) or B.4(d) to make the calculations in C.2.
4. If a business referred to in C.1 meets either of the threshold tests in C.2, include in the offering memorandum the following financial statements of the business:
  - (a) If the business has not completed one financial year include
    - (i) statements of income, retained earnings and cash flows for the period from inception to a date not more than 60 days before the date of the offering memorandum, and
    - (ii) a balance sheet dated as at the ending date of the statements required by C.4(a)(i).However, if the date of acquisition for a business precedes the ending date of the period referred to in C.4(a)(i), then provide financial statements for the period from inception to the date of acquisition or a date not more than 30 days before the date of acquisition.
  - (b) If the business has completed one or more financial years include
    - (i) statements of income, retained earnings and cash flows for the most recently completed financial year that ended before the date of acquisition and more than 120 days before the date of the offering memorandum,
    - (ii) a balance sheet dated as at the ending date of the statements required by C.4(b)(i),
    - (iii) statements of income, retained earnings and cash flows for either:
      - A. the most recently completed 3, 6 or 9 month interim period that ended before the date of acquisition and more than 60 days before the date of the offering memorandum and ended after the date of the financial statements required under C.4(b)(i), or
      - B. the period from the first day after the financial year referred to in C.4(b)(i) to the date of acquisition or a date not more than 30 days before the date of acquisition, and
    - (iv) a balance sheet dated as at the ending date of the statements required by C.4(b)(iii).
5. The annual financial statements required under C.4(b)(i) and (ii) must be audited in accordance with Canadian GAAS and the audit report must be included in the offering memorandum. The financial statements required under C.4(a) and C.4(b)(iii) and (iv) may be unaudited; however, if any of those financial statements have been audited, the audit report must be included in the offering memorandum.

6. If the offering memorandum does not contain audited financial statements for a business referred to in C.1 for the business' most recently completed financial year that ended before the date of acquisition, update the offering memorandum to include those financial statements and the audit report when they are available, but in any event no later than the date 120 days following the year end.
7. The term "business" should be evaluated in light of the facts and circumstances involved. Generally, a separate entity or a subsidiary or division of an entity is a business and, in certain circumstances, a lesser component of an entity may also constitute a business, whether or not the subject of the acquisition previously prepared financial statements. The subject of an acquisition should be considered a business where there is, or the issuer expects there will be, continuity of operations. The issuer should consider:
  - (a) whether the nature of the revenue producing activity or potential revenue producing activity will remain generally the same after the acquisition, and
  - (b) whether any of the physical facilities, employees, marketing systems, sales forces, customers, operating rights, production techniques or trade names are acquired by the issuer instead of remaining with the vendor after the acquisition.
8. If an acquisition or a proposed acquisition has been or will be accounted for as a reverse take-over, include financial statements for the legal subsidiary in the offering memorandum in accordance with Part B. The legal parent, as that term is defined in the CICA Handbook, is considered to be the business acquired. C.1 may require financial statements of the legal parent.

#### **D. Financial Statement - Exemptions**

1. An issuer will satisfy the financial statement requirements of this form if it includes the financial statements required by securities legislation for a prospectus.
2. An audit report on financial statements contained in an offering memorandum may contain a reservation relating to opening inventory unless the issuer previously filed an audit report on financial statements for the same entity for a prior year in which there was a reservation relating to inventory.
3. The financial statements of a person or company incorporated or organized in a jurisdiction outside of Canada that are included in an offering memorandum, may be prepared in accordance with a body of generally accepted accounting principles, other than Canadian GAAP, if those accounting principles are as comprehensive as Canadian GAAP (e.g., U.S. GAAP) and cover substantially the same core subject matter as Canadian GAAP, including recognition and measurement principles and disclosure requirements ("foreign GAAP"), if the notes to the financial statements
  - (a) explain and quantify the effect of material differences between Canadian GAAP and foreign GAAP that relate to measurements and those differences are not so pervasive as to render the financial statements misleading, and
  - (b) provide disclosure consistent with Canadian GAAP requirements to the extent not already reflected in the financial statements.
4. The financial statements of a person or company incorporated or organized in a jurisdiction outside of Canada that are included in an offering memorandum, may be audited in

accordance with a body of generally accepted auditing standards, other than Canadian GAAS, provided that

- (a) those auditing standards are substantially equivalent to Canadian GAAS, requiring audit work that is comparable in scope, nature and timing to the work required in connection with an audit in accordance with Canadian GAAS, and
  - (b) the auditor's report is accompanied by a statement of the auditor
    - (i) disclosing any material differences in the form and content of the foreign auditor's report as compared to a Canadian auditor's report, and
    - (ii) unless the auditing standards are U.S. GAAS, confirming that the auditing standards applied are substantially equivalent to Canadian GAAS.
5. If an acquisition is, or will be, an investment accounted for using the equity method, as that term is defined in the CICA Handbook, financial statements for a business required by C.4 are not required to be included in the offering memorandum if:
- (a) the offering memorandum includes disclosure for the periods for which financial statements are required under Part C that:
    - (i) summarizes the assets, liabilities and results of operations of the business, and
    - (ii) describes the issuer's proportionate interest in the business and any contingent issuance of securities by the business that might significantly affect the issuer's share of earnings;
  - (b) the financial information provided under D.5(a) for any completed financial year has been audited, or has been derived from audited financial statements of the business; and
  - (c) the offering memorandum discloses that:
    - (i) the financial information provided under D.5(a) for any completed financial year has been audited, or identifies the financial statements from which the financial information provided under D.5(a) has been derived; and
    - (ii) the audit opinion with respect to the financial information or financial statements referred to in D.5(c)(i) was issued without a reservation of opinion.

If the financial information included in an offering memorandum under D.5(a) has been derived from financial statements of a business incorporated or organized in a foreign jurisdiction that have been prepared in accordance with foreign GAAP, the information must be accompanied by a note that explains and quantifies the effect of material differences between Canadian GAAP and the foreign GAAP.

6. Financial statements relating to the acquisition or proposed acquisition of a business that is an interest in an oil and gas property are not required to be included in an offering memorandum if:
- (a) the required financial statements do not exist,
  - (b) the acquisition was not or will not be accounted for as a "reverse take-over" as defined in the CICA Handbook,
  - (c) the property did not or does not constitute a "reportable segment" of the seller, as defined in section 1701 of the CICA Handbook, at the time of acquisition and
  - (d) the offering memorandum contains alternative disclosure for the property which includes at least an operating statement (which must be accompanied by an audit report if it is prepared as an alternative to audited annual financial statements) presenting, at a minimum, the following line items:



- (i) gross revenue,
  - (ii) royalty expenses,
  - (iii) production costs,
  - (iv) operating income, and
  - (v) if a material fact,
    - A. information with respect to reserve estimates and estimates of future net revenue and production volumes and other relevant information regarding the property,
    - B. actual production volumes of the property for the most recently completed year, and
    - C. estimated production volumes of the property for the next year, based on information in the reserve report.
7. Financial statements for a business that is an interest in an oil and gas property or for the acquisition or proposed acquisition by an issuer of a property are not required to be audited if:
- (a) the property was acquired prior to December 31, 2000, and the offering memorandum states that, despite making reasonable efforts, the issuer was unable to obtain audited operating statements because the seller refused to provide such audited statements or to permit access to the information necessary to audit the statements, or
  - (b) during the 12 months preceding the date of the acquisition or the proposed date of an acquisition, the daily average production of the property on a barrel of oil equivalent basis (with gas converted to oil in the ratio of six thousand cubic feet of gas being the equivalent of one barrel of oil) is less than 20 per cent of the total daily average production of the seller for the same or similar periods and:
    - (i) despite reasonable efforts during the purchase negotiations, the issuer was prohibited from including in the purchase agreement the rights to obtain an audited operating statement of the property,
    - (ii) the purchase agreement includes representations and warranties by the seller that the amounts presented in the operating statement agree to the seller's books and records, and
    - (iii) the offering memorandum discloses
      - A. that the issuer was unable to obtain an audited operating statement,
      - B. the reasons for that inability,
      - C. the fact that the purchase agreement includes the representations and warranties referred to in D.7(b)(ii), and
      - D. that the results presented in the operating statements may have been materially different if the statements had been audited.