

MANITOBA SECURITIES COMMISSION RULE 44-501CP COMPANION POLICY

Part 1 - Introduction

1.1 Purpose - The purpose of this Policy is to state the Commission's interpretation of certain provisions of Rule 44-501.

Part 2 - General

2.1 Related Regulatory Requirements - Rule 44-501 should be read in conjunction with all applicable rules and operating policies of the Exchange.

2.2 Applicable Regulatory Requirements - In addition to complying with the Rule, a Keystone must comply with all otherwise applicable requirements of securities legislation, including the provisions of the Act, the regulations and rules under the Act, the blanket rulings and orders issued by the Commission and national instruments relating to all matters including material changes, insider reporting and proxy solicitation.

Part 3 - Application of the Rule

3.2 Reactivations - The effect of section 2.2 of the Rule is that all of the requirements of the Rule apply until a written notice has been issued by the Exchange confirming that the Major Transaction has been completed and the company is no longer considered a Keystone (after which time only Parts 7 and 9 continue to apply). Accordingly, a Keystone which is delisted from the Exchange or which is subject to a cease trade order of the Commission, and which subsequently is reactivated, continues to be subject to the Rule until the Major Transaction is completed and written notice has been issued by the Exchange.

Part 4 - Foreign Transactions

4.1 Foreign Directors and Officers - The integrity of management, including a history of regulatory compliance, is an important element of any public company. Given that a Keystone has no significant assets, the integrity of management of a Keystone is even more significant. The Commission conducts background checks of all directors and officers of listed companies. Such checks can be extremely difficult and time-consuming in some foreign jurisdictions.

Subsections 3.2(1) and (2) of the Rule have the effect of restricting the number of directors and officers of a Keystone who may reside outside of Canada. Regulatory checks can be conducted by the Commission relatively quickly for individuals resident in the United States. In order to assist in reducing the length of time required for regulatory checks for directors and officers who are not resident in Canada or the United States, issuers may wish to request the appropriate local government authorities in the jurisdiction of the director or officer's residence to send to the Director a statement confirming whether the director or officer has a record of any criminal, quasi-criminal, corporate or securities convictions.

Ideally, this statement should be received by the Director when a preliminary prospectus is filed by the Keystone or, if the individual is elected or appointed subsequent to the filing of the preliminary prospectus, when the individual is first elected a director or appointed an officer of the Keystone. This statement may be considered by the Director in assessing the

suitability of management, but will not exempt the issuer from the requirements of subsections 3.2(1) and (2) of the Rule and will not bind the discretion of the Director.

Part 5 - Private Placements for Cash

5.1 Private Placements for Cash - Section 3.3 of the Rule provides certain requirements which must be met in connection with certain private placements for cash, including prior Exchange approval, security holder approval by means of the majority of minority test, restrictions on the use of proceeds, and the escrow requirements which would otherwise apply to securities issued by a Keystone. However, it should be noted that cash is specifically excluded from the types of assets included in the definition of Significant Assets in section 1.1 of the Rule, and that all types of "Major Transactions" require the acquisition of "Significant Assets". The definition of "Major Transaction" in section 1.1 also specifically excludes a transaction whereby, prior to completion of the Major Transaction, a Keystone issues for cash securities representing more than 25 percent of its securities issued and outstanding immediately prior to the issuance. Accordingly, a private placement for cash will not constitute a "Major Transaction".

Part 6 - Failure to Maintain Listing

6.1 Interim Cease Trade Order - Subsections 3.4(2) and 3.4(3) of the Rule provide that in certain circumstances an interim cease trade order will or may be issued. Reference is made to section 148 of the Act relating to interim orders.

Part 7 - Listing Representations

7.1 Listing Representations - Section 4.2 of the Rule requires conditional listing approval of the Exchange for securities offered under a Keystone Prospectus. Reference is made to section 69(3) of the Act that provides that approval of the Commission is required to make a representation that a security will be listed on a stock exchange.

Part 8 - Use of Proceeds

8.1 Balance of Proceeds - The prohibition against payments to related parties and the other restrictions on expenditures in Parts 3 and 6 of the Rule continue to apply until completion of the Major Transaction. As a result of the definition of completion of the Major Transaction, these restrictions on expenditures continue to apply following security holder approval of the proposed Major Transaction if the transaction fails to close and the Exchange does not issue written notice confirming that the company is no longer considered a Keystone. Accordingly, the principals of a Keystone who identify a potential Major Transaction prior to spending the entire amount of proceeds raised by the Keystone and who, after security holder approval, spend the balance of the proceeds for purposes which are otherwise prohibited under the Rule, risk being in breach of the Rule if the Major Transaction subsequently does not close.

The following is an example of disclosure which the Director would consider acceptable in the notes to the Use of Proceeds section of a Keystone Prospectus as to the use of the balance of the proceeds:

In the event the Corporation completes an approved major transaction prior to spending the entire proceeds (\$***) on identifying and evaluating properties or businesses, the Corporation may use the remaining funds to finance or partially finance the acquisition of,

or participation in, such properties or businesses.

8.2 Payments to Related Parties - Expenditures which are set out in section 6.2 of the Rule are expressly subject to the provisions of sections 6.3 and 6.4 of the Rule. Accordingly, any payments to related parties must still meet the requirements of sections 6.3 and 6.4 of the Rule.

8.3 Reasonable Expenses - Section 6.2 of the Rule permits certain expenditures for reasonable expenses. In determining whether expenses are reasonable, the Commission may take into consideration whether the expenses would be deductible under the Income Tax Act, for example, a claim for mileage if a personal car is used for business travel.

8.4 Deposits - Subsection 6.3(b) of the Rule permits the expenditure of up to an aggregate of \$25,000 on deposits. Accordingly, if only part of this amount is spent on a deposit, a second deposit may be made for the balance of the \$25,000. Similarly, if a deposit or part of a deposit is refunded, the refunded amount can be reused up to the maximum of \$25,000 in aggregate.

Section 6.3 of the Rule is subject to the provisions of section 6.1, which expressly prohibits the payment of deposits or similar payments referred to in subsection 6.3(b) to parties related to the Keystone.

Part 9 - Escrow Requirements

9.1 Escrowed Securities - Section 7.3 of the Rule requires the escrow of all securities acquired by a Control Person in the secondary market prior to completion of the Major Transaction. Where a party holds securities and subsequently acquires additional securities of the Keystone which results in their holding more than 20 percent of the outstanding securities of the Keystone, the Rule requires the escrow of all securities then held by the party, not merely those acquired in the transaction that takes them over the 20 percent threshold.

9.2 Transfers within Escrow - Sections 7.1, 7.2, 7.3 and 7.4 of the Rule require that certain securities be held in escrow. All transfers within escrow require the prior written consent of the Director and the filing of a written acknowledgement, signed by the transferee of the securities, which evidences the consent of the transferee to be bound by the terms and conditions of the original escrow agreement.

9.3 Holding Companies - Subsection 7.4(1) of the Rule is intended to prohibit a holding company that holds escrowed securities of a Keystone from circumventing the purpose of the escrow. Staff will normally require from the holding company an undertaking not to carry out any transactions in contravention of subsection 7.4(1) of the Rule.

Examples of transactions contemplated by subsection 7.4(1) of the Rule include issuances of securities from treasury and redemptions or repurchases of securities that have the effect of changing control of the holding company.

9.4 Release from Escrow - Section 7.6 of the Rule provides the schedule for releases of securities from escrow on certain anniversaries of the Completion of the Major

Transaction. Accordingly, if a Major Transaction is not completed by a Keystone, the escrowed securities will not be released from escrow.

Since section 7.6 of the Rule provides for the release of securities from escrow based on the passage of time and does not require any additional securities regulatory consents to the release of securities held in escrow, a trustee may use as evidence of the Completion of the Major Transaction a copy of the written notice of the Exchange confirming that the Major Transaction has been completed and that the company is no longer considered a Keystone. Reference is also made to the definition of Completion of the Major Transaction in section 1.1 of the Rule. The written notice of the Exchange will also set out the date of the security holders approving the Major Transaction, which is necessary for determining the date of Completion of the Major Transaction for purposes of section 7.6 of the Rule.