

**CSA Notice of Amendments Relating to Rights Offerings to  
National Instrument 45-106 *Prospectus Exemptions*,  
National Instrument 41-101 *General Prospectus Requirements*,  
National Instrument 44-101 *Short Form Prospectus Distributions*,  
and National Instrument 45-102 *Resale of Securities* and Repeal of  
National Instrument 45-101 *Rights Offerings***

**September 24, 2015**

*Introduction*

We, the Canadian Securities Administrators (the **CSA** or **we**), are adopting the following amendments to the prospectus-exempt rights offering regime:

- amendments to:
  - National Instrument 45-106 *Prospectus Exemptions* (**NI 45-106**),
  - National Instrument 41-101 *General Prospectus Requirements* (**NI 41-101**),
  - National Instrument 44-101 *Short Form Prospectus Distributions* (**NI 44-101**),
  - National Instrument 45-102 *Resale of Securities* (**NI 45-102**),
  
- consequential amendments to:
  - Multilateral Instrument 11-102 *Passport System* (**MI 11-102**),
  - National Instrument 13-101 *System for Electronic Document Analysis and Retrieval (SEDAR)* (**NI 13-101**),
  - Multilateral Instrument 13-102 *System Fees for SEDAR and NRD* (**MI 13-102**),  
and
  
- the repeal of National Instrument 45-101 *Rights Offerings* (**NI 45-101**)  
(collectively, the **Amendments**).

In addition, we are implementing changes to:

- Companion Policy 45-106CP to NI 45-106 (**45-106CP**), and
- Companion Policy 41-101CP to NI 41-101 (**41-101CP**).

We are also withdrawing Companion Policy 45-101CP to NI 45-101 (**45-101CP**).

The Amendments and policy changes have been made by each member of the CSA. Provided all necessary ministerial approvals are obtained, the Amendments and policy changes will come into force on **December 8, 2015**.

## *Substance and purpose*

The Amendments and policy changes are intended to address CSA concerns that issuers seldom use prospectus-exempt rights offerings to raise capital because of the associated time and cost. At the same time, rights offerings can be one of the fairer ways for issuers to raise capital as they provide existing security holders with an opportunity to protect themselves from dilution. The Amendments are designed to make prospectus-exempt rights offerings more attractive to reporting issuers while maintaining investor protection.

The Amendments create a streamlined prospectus exemption (the **Rights Offering Exemption**) that is available only to reporting issuers, but not to investment funds subject to National Instrument 81-102 *Investment Funds*. The Rights Offering Exemption removes the current requirement for a regulatory review prior to use of the rights offering circular. Other key elements of the Rights Offering Exemption include:

- a new form of notice (**Form 45-106F14** or the **Rights Offering Notice**) that reporting issuers will have to file and send to security holders informing security holders how to access the rights offering circular electronically,
- a new form of simplified rights offering circular (**Form 45-106F15** or the **Rights Offering Circular**) in a question and answer format that is intended to be easier to prepare and more straightforward for investors to understand – it will have to be filed but not sent to security holders,
- a dilution limit of 100%, instead of the current 25%, and
- the addition of statutory secondary market civil liability.

The Amendments create a new prospectus exemption for stand-by guarantors and modify certain conditions of the minimal connection exemption. The Amendments also update or revise some of the requirements for rights offerings by way of prospectus.

In addition, the Amendments remove the ability of non-reporting issuers to use the Rights Offering Exemption and repeal NI 45-101.

## *Background*

Under the current rules, an issuer wanting to conduct a prospectus-exempt rights offering in Canada would use the prospectus exemption in section 2.1 of NI 45-106 which requires compliance with NI 45-101 (the **45-101 Exemption**) and also provides that:

- the securities regulatory authority must not object to the offering, which results in a review of the rights offering circular by CSA staff, and
- reporting issuers are restricted from issuing more than 25% of their securities under the exemption in any 12 month period.

Very few reporting issuers use the 45-101 Exemption. In 2013 and 2014, CSA staff conducted research, collected data and held informal consultations with market participants to identify issues and to consider changes to the 45-101 Exemption that would facilitate prospectus-exempt rights offerings.

Through this work, the CSA found that the overall time period to conduct a prospectus-exempt rights offering, including the CSA review period, was much longer than the time period when using other prospectus exemptions. Specifically, CSA staff looked at 93 rights offerings by reporting issuers over a seven year time period and found that the average length of time to complete a prospectus-exempt rights offering was 85 days and the average length of time between filing of the draft circular and notice of acceptance by the regulator was 40 days. CSA staff heard that the length of time to complete an offering results in lack of certainty of financing and increased costs.

Market participants also reported that the dilution limit was too low and greatly restricted the ability of issuers with small market capitalization to raise sufficient funds to make a prospectus-exempt rights offering worthwhile.

Between March 2014 and February 2015, all CSA jurisdictions adopted a prospectus exemption for the distribution of securities to existing security holders. Under that exemption, reporting issuers listed on a Canadian exchange are able to raise money directly from their security holders without having to prepare an offering document. However, the CSA believes that rights offerings remain an important tool for reporting issuers because, with a rights offering:

- all security holders receive notice of the offering,
- the offering must be done on a pro-rata basis,
- securities are only subject to a seasoning period (and therefore generally freely tradeable), and
- there are no investment limits other than the limit imposed by the pro rata requirement.

*On November 27, 2014, we published a Notice and Request for Comment relating to the Amendments and policy changes (the **November 2014 Publication**) in which we proposed removing the 45-101 Exemption and adopting the Rights Offering Exemption to make prospectus-exempt rights offerings more attractive to reporting issuers while maintaining investor protection.*

#### *Summary of written comments received by the CSA*

The comment period for the November 2014 Publication ended on February 25, 2015. We received submissions from 13 commenters. We considered the comments received and thank all of the commenters for their input. The names of commenters are contained in Annex B of this notice and a summary of their comments, together with our responses, is contained in Annex C of this notice.

#### *Summary of changes to the November 2014 Publication*

After considering the comments received on the November 2014 Publication, we have made some revisions to the Amendments as published for comment. Those revisions are reflected in the Amendments and policy changes that we are publishing concurrently with this notice. As these changes are not material, we are not republishing the Amendments and policy changes for a further comment period.

Annex A contains a summary of notable changes to the Amendments and policy changes since the November 2014 Publication.

### **Repeal and withdrawal of instruments and policies**

We are repealing NI 45-101 and withdrawing 45-101CP, effective December 8, 2015.

As the 45-101 Exemption will no longer be available as of December 8, 2015, issuers that plan to conduct a rights offering using the 45-101 Exemption will need to complete the distribution before December 8, 2015.

### **Consequential amendments**

We are making consequential amendments to MI 11-102 to reflect the repeal of NI 45-101. We are also making consequential amendments to NI 13-101 and MI 13-102 to reflect necessary changes to SEDAR as a result of the Amendments. The consequential amendments to MI 13-102 will be adopted in each of the jurisdictions either as an amendment to a rule or as an amendment to a regulation.

### **Local matters**

Annex G is being published in any local jurisdiction that is making related changes to local securities laws, including local notices or other policy instruments in that jurisdiction. It also includes any additional information that is relevant to that jurisdiction only.

The Ontario Securities Commission and the Autorité des marchés financiers will also make a consequential amendment to Multilateral Instrument 61-101 *Protection of Minority Security Holders in Special Transactions*. The consequential amendment will replace the reference to NI 45-101 with a reference to NI 45-106. A more detailed explanation of this local amendment is available on the OSC and the AMF websites, respectively, [www.osc.gov.on.ca](http://www.osc.gov.on.ca) and [www.lautorite.qc.ca](http://www.lautorite.qc.ca).

### **Contents of annexes**

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Annex F1	Changes to 45-106CP
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Annex G	Local matters

### *Questions*

Please refer your questions to any of the following:

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## Annex A

### Summary of changes

#### **Stand-by commitment**

In the November 2014 Publication, we proposed a prospectus exemption (in section 2.1.1 of NI 45-106) for securities distributed to a stand-by guarantor as part of a distribution under the Rights Offering Exemption (the **Stand-by Exemption**). We proposed that the Stand-by Exemption would have a restricted period on resale (that is, a four-month hold period). Stand-by guarantors who were already existing security holders would only be subject to a seasoning period on resale.

Upon considering the comments received, we have decided that stand-by guarantors should not be subject to different resale restrictions depending on whether or not they are existing security holders and that stand-by guarantors generally should not be subject to a four-month hold period on the securities they take up as part of the stand-by commitment. A restriction such as a hold period may limit a person's willingness to provide a stand-by commitment and increase the costs to the issuer of the stand-by commitment.

In the Amendments, the Stand-by Exemption now has a seasoning period instead of a restricted period on resale. As a result, the securities distributed under the stand-by commitment will generally have the same resale restrictions as securities distributed under the basic subscription privilege and the additional subscription privilege, except as noted below.

We added guidance to 45-106CP which clarifies that if a registered dealer acquires a security as part of a stand-by commitment, the dealer may use the Stand-by Exemption (and have a seasoning period on resale). However, we would have concerns if a dealer or other person uses the Stand-by Exemption in a situation where the dealer or other person (a) is acting as an underwriter with respect to the distribution, and (b) acquires the security with a view to distribution. In that situation, the dealer or other person should acquire the security under the exemption in section 2.33 of NI 45-106 as per the guidance in section 1.7 of 45-106CP. This approach is consistent with the approach to the use of other prospectus exemptions by dealers acting as underwriters.

#### **Minimal connection exemption**

In the November 2014 Publication, we proposed a prospectus exemption (in section 2.1.2 of NI 45-106) for issuers with a minimal connection to Canada (the **Minimal Connection Exemption**) that was consistent with Part 10 of NI 45-101. As described in the November 2014 Publication, the prospectus requirement would not apply to rights offerings in situations where the number of securities and beneficial security holders in Canada, and in the local jurisdiction, is minimal.

In the Amendments, we decided to remove the local jurisdiction aspect of this test. We did not believe issuers should be precluded from using the Minimal Connection Exemption to offer rights to security holders in a local jurisdiction solely because either 5% of the issuer's beneficial

security holders reside in the local jurisdiction or 5% of the number of the issuer's securities are held by security holders that reside in the local jurisdiction. In addition, for reporting issuers that do not meet the local jurisdiction test but satisfy the Canada-wide test, we did not believe that the benefits of requiring the issuer to prepare the documents required under the Rights Offering Exemption outweighed the costs. As a result, both reporting and non-reporting issuers will be able to use the Minimal Connection Exemption so long as neither the number of beneficial security holders of the relevant class that are resident in Canada nor the number of securities beneficially held by security holders resident in Canada exceeds 10% of all security holders or securities, as the case may be.

We have also added guidance on the timing for the procedures that an issuer may rely upon to determine the number of beneficial security holders or the number of securities for the purposes of determining whether they can use the Minimal Connection Exemption.

### **Material facts**

Upon considering the comments received, we have decided to include a requirement that the issuer must disclose in the Circular any material facts and material changes that have not yet been disclosed and include a statement that there are no undisclosed material facts or material changes. This approach is substantially similar to the existing security holder exemption where the issuer must represent to the investor that there is no material fact or material change related to the issuer which has not been generally disclosed.



## Annex B

### List of commenters

	<b>Commenter</b>	<b>Date</b>
1.	<a href="#">Gordon Keep</a>	February 12, 2015
2.	<a href="#">Investment Industry Association of Canada</a> (Susan Copland)	February 24, 2015
3.	<a href="#">The Canadian Advocacy Council for Canadian CFA Institute Societies</a> (Cecilia Wong)	February 24, 2015
4.	<a href="#">Scorpeo UK Ltd.</a> (Ian Davey)	February 25, 2015
5.	<a href="#">Osler, Hoskin &amp; Harcourt LLP</a> (Rob Lando)	February 25, 2015
6.	<a href="#">Simon A. Romano</a> (Stikeman Elliott)	February 25, 2015
7.	<a href="#">TMX Group Limited</a> (Ungad Chadda and John McCoach)	February 25, 2015
8.	<a href="#">DuMoulin Black LLP</a> (Daniel McElroy)	February 25, 2015
9.	<a href="#">Canadian Foundation for Advancement of Investor Rights</a> (Neil Gross)	February 25, 2015
10.	<a href="#">Association for Mineral Exploration British Columbia</a> (Gavin Dirom)	February 25, 2015
11.	<a href="#">Burstall Winger Zammit LLP</a> (Jason Mullins)	February 26, 2015
12.	<a href="#">Don Mosher</a>	February 25, 2015
13.	<a href="#">Prospectors &amp; Developers Association of Canada</a> (Rodney Thomas)	March 11, 2015

## Annex C

### Summary of comments and responses CSA Notice and Request for Comment

**Proposed Amendments to National Instrument 45-106 *Prospectus Exemptions*, National Instrument 41-101 *General Prospectus Requirements*, National Instrument 44-101 *Short Form Prospectus Distributions* and National Instrument 45-102 *Resale of Securities* and Proposed Repeal of National Instrument 45-101 *Rights Offerings***

No.	Subject	Summarized Comment	Response
<b>General Comments</b>			
1	<i>General support for the proposals</i>	<p>We received 13 comment letters. Ten commenters generally support the proposals. The other three commenters only commented on specific aspects of the proposals.</p> <p>One commenter noted that they support the initiative to assist issuers by making the rights offering process more efficient and accessible for companies seeking to raise capital from existing shareholders.</p> <p>One commenter supports efforts to improve the ease with which issuers can raise capital in Canada while balancing investor protection considerations. In addition, the commenter agrees that the proposed exemption should only be available to reporting issuers in Canada. Investors are generally familiar with the ability to access current information about issuers on SEDAR and current shareholders may also be receiving specified financial and other continuous disclosure information from the issuer directly.</p> <p>One commenter is extremely supportive of the introduction of changes to the current rights offering regime, and are very appreciative of the significant work among the Canadian securities regulatory authorities that went into revisions to these rules. They are generally of the view that rights offerings are inherently fair to security holders and should therefore be supported by regulatory authorities. The commenter is committed to reviewing their policies in order to support the appeal of</p>	We acknowledge the comments.

No.	Subject	Summarized Comment	Response
		<p>rights offerings and believes that the CSA's efforts to reduce the standard timetable and associated costs of completing a rights offering are key to increasing the viability of rights offerings as a useful way for listed issuers to access capital.</p> <p>One commenter indicated that they are generally very supportive of the Proposed Amendments.</p> <p>One commenter supports the Proposed Amendments as a method of facilitating rights offerings in Canada, and believes that they would increase the likelihood of reporting issuers raising capital via rights offerings.</p> <p>One commenter, on behalf of close to 5,000 corporate and individual members, expresses full support of the proposed changes to the Rights Offering Regime. As proposed, the changes should reduce costs and improve timeliness. And importantly, the changes should enable BC and Canada to compete more competitively with jurisdictions such as Australia. The commenter also supports retaining as much flexibility as possible on the use of funds raised. The commenter supports the overall goal of making the process of raising capital more streamlined and efficient. It is imperative that this goal actually be achieved.</p> <p>One commenter supports regulatory efforts to improve the ability of reporting issuers to raise capital in a cost efficient manner that, at the same time, provides adequate protection to investors. The commenter supports efforts to examine why some prospectus exemptions, such as rights offerings, have been rarely used in the various jurisdictions in Canada whilst they are commonly used in other jurisdictions (such as the United Kingdom, Hong Kong, and Australia) in order to make changes so such prospectus exemption are utilized more often. The Notice indicates that CSA Staff have conducted research, collected data and held informal consultations with market participants to</p>	

No.	Subject	Summarized Comment	Response
		<p>identify issues and consider changes. This has resulted in the Proposed Amendments. The commenter welcomes such steps.</p> <p>One commenter noted that overall, they are in favour of the implementation of the Proposed Amendments. They welcome the initiative to amend rights offerings so that they will become a viable and more attractive financing method for issuers. Historically, the commenter's clients have viewed rights offerings as overwhelmingly negative and a financing "method of last resort" due to the length of and difficulty in predicting the overall timeline and the capital raising limits under the current regime. The commenter believes the Proposed Amendments substantially address the issues which made rights offerings an impractical and undesirable financing method (specifically the increase of permitted dilution in a 12-month period to 100% and removal of the requirement for advanced review and clearance of rights offering circulars by securities regulators).</p> <p>One commenter stated that reducing costs and time for listed companies will allow more money to be spent on research, development and exploration regardless of sector.</p> <p>One commenter views rights offerings as an important and useful means of raising capital in Canada, particularly for junior issuers in the mining industry. By permitting all security holders to participate on a pro rata basis, rights offerings are inherently fair to investors and therefore should be viewed as positive for Canada's capital markets. However, the ability of issuers to efficiently raise meaningful amounts of capital by way of a rights offering, on a prospectus-exempt basis, can be limited by the existing 25% market capitalization limit.</p> <p>For those reasons, the commenter is generally supportive of the Proposed Amendments insofar as the amendments would reduce the</p>	

No.	Subject	Summarized Comment	Response
		<p>cost of capital raising by:</p> <ul style="list-style-type: none"> <li>○ simplifying and standardizing the offering documentation used to effect a rights offering</li> <li>○ eliminating regulatory review of the rights offering circular; and</li> <li>○ reducing the average period of time to complete a rights offering.</li> </ul> <p>The commenter is also supportive of the proposal to increase the maximum dilution limit from 25% to 100% over a 12 month period, which, when combined with the other aspects of the Proposed Amendments, should enable issuers to more efficiently raise larger amounts of capital on a prospectus-exempt basis.</p>	
2	<p><b><i>General comment on rights offering timeframe</i></b></p>	<p>One commenter noted the length of time to complete a rights offer has been the subject of examination and regulatory reform in other jurisdictions. The UK made changes to its regime to shorten the length of time. The minimum rights issue offer period was reduced from 21 days to 10 business days (or 14 clear days when statutory pre-emption rights apply). Listed issuers are able to hold general meetings on 14 clear days' notice if certain conditions are complied with.</p> <p>The UK Report that preceded changes to the rights offering in that jurisdiction notes that reducing the length of time would reduce the period when a company (and its reputation) is at risk and its share price open to potential abuse (some companies experienced changes in their financial position and prospects during the process and claims were made of short selling). The Report notes that "<i>Efficient capital raising techniques are essential to enable companies to raise capital at least cost. Orderly capital raising not only helps reduce the cost of raising capital but also preserves the integrity of the market and the</i></p>	<p>We acknowledge the comments.</p> <p>We note that the Canadian processes for communicating with beneficial owners of securities are unique; therefore, it is difficult to directly compare our timelines to those in other jurisdictions.</p>

No.	Subject	Summarized Comment	Response
		<p><i>issuer's reputation. Improvements will therefore benefit the market, companies and shareholders."</i></p> <p>The commenter notes that the UK was able to significantly reduce the length of time without having to do away with a rights offering prospectus altogether – rather it reduced disclosure requirements as compared to a full prospectus in order to lower the cost and administrative burden by omitting from a rights issue prospectus the information that is already available to the market through its ongoing disclosure obligations.</p>	
3	<p><b><i>General comment on shareholder value</i></b></p>	<p>One commenter notes that rights offerings are usually conducted by companies to raise cash for specific or general purposes including: to repay debt; to satisfy capital adequacy requirements (as applicable); to fund acquisitions; or to create working capital.</p> <p>From the perspective of the retail investor, rights offerings may generally be viewed favourably (versus a private placement, for example) to the extent that they: (a) Offer existing shareholders shares in proportion to their existing holdings (the “right of pre-emption”) and (b) Allow the existing shareholders to sell the right to subscribe for shares (the “right of compensation for non-subscribing shares”).</p> <p>A rights offering should provide the retail investor with the following choices:</p> <ul style="list-style-type: none"> <li>- Accept the offer and subscribe for the shares at the issue price (i.e. take up the rights);</li> <li>- Sell the entitlement to their right of pre-emption (also known as a “nil-paid” entitlement) (i.e. sell their rights);</li> <li>- Do nothing, in which case alternative subscribers will be sought at the end of the rights issue and any proceeds above the issue price, less expenses, will be passed to the shareholder (i.e. do nothing and receive the proceeds of a sale of the</li> </ul>	<p>We acknowledge the comments. Please also see the response to comment 2 above.</p>

No.	Subject	Summarized Comment	Response
		<p>rights); or - Do a combination of the above three options</p> <p>In theory, the value that non-accepting shareholders receive in a rights issue can be the same regardless of which course of action they choose to take – take up their rights, sell those rights or do nothing. However, in practice, there may be little or no value in the nil-paid right as the market may be illiquid and they are often underpriced. Nonetheless, shareholders prefer to have tradability of rights.</p> <p>The commenter notes that corporate law, listing rules and securities law requirements must be reviewed in order to derive a rights offering framework that best improves shareholder value. The CSA Notice does not discuss the applicable corporate law or listing rules of the TSX or TSX-V or other exchanges and how they assist in creating an efficient and orderly rights offering regime that is in the interests of all market participants, including retail investors. This would have been helpful to include.</p> <p>A recent paper entitled “Rights Offerings, Trading, and Regulation: A Global Perspective” examined the rights offering around the world using a sample of 8,238 rights offers in 69 countries and provides insight as to which rules may increase shareholder value. For example, in Hong Kong and the UK a company’s ability to decide whether rights will be tradable is structured and regulated – if the offerings are without tradable rights, they are called open offers and are subject to a separate set of regulations including a limit on the discount to the market price. In those jurisdictions, issuers do not have a free choice as to whether the rights are traded but rather it is subject to specific conditions if tradability is removed.</p>	
4	<b><i>Results of CSA Research</i></b>	One commenter would have liked to see publicized in the Notice the results of the research undertaken especially any benchmarking of the	We thank the commenter for their input.

No.	Subject	Summarized Comment	Response
		<p>key features of the rights offering regimes in those jurisdictions that commonly use it (notably Australia, Hong Kong and the UK). It would also be beneficial in the interests of transparency to provide some detail as to what categories of stakeholders were consulted – were institutional shareholders consulted in addition to issuers, for example? Finally, it would be valuable to publish in the Notice any available information on the amount of capital raised in other jurisdictions through the exemption, and the percentage of total capital raised in other jurisdictions using the exemption as compared to other prospectus exemptions, if available. Making this information public would further the understanding of all stakeholders of capital raising in other jurisdictions and improve the quality of comments received in respect of the Proposed Amendments.</p>	<p>With respect to benchmarking, we note that, in general, our policy making is informed by looking at the requirements in other jurisdictions to the extent appropriate having regard to the uniqueness of the Canadian market.</p>
<p><b>Question 1a: the Proposed Exemption – the Exercise Period – Do you agree that the exercise period should be a minimum of 21 days and a maximum of 90 days?</b></p>			
5	Yes	<p>Two commenters believe that an exercise period of a minimum of 21 days is appropriate.</p> <p>One commenter noted that while they do not have a view on the appropriate maximum number of days for the exercise period, they believe the minimum exercise period should be at least 21 business days, to ensure that the requisite materials have been mailed to all shareholders, including foreign shareholders. Issuers and their intermediaries should be given sufficient time to identify beneficial holders to whom the materials must be sent. The commenter agrees with market commentators who have indicated that institutional investors may require additional time for internal approvals prior to making a decision with respect to participation in a rights offering. All investors would benefit from a longer period of time in which to make a decision, particularly if they would be required to liquidate other investments to satisfy the exercise price.</p>	<p>We acknowledge the comments. We have maintained the requirement that the exercise period be a minimum of 21 days and a maximum of 90 days.</p>



No.	Subject	Summarized Comment	Response
		Two commenters believe that a maximum of 90 days is appropriate.	
6	<i>No</i>	Five commenters did not agree with the proposed exercise period.	We thank the commenters for their input. We have decided that a minimum exercise period of 21 days is appropriate considering the Canadian system for communicating with beneficial security holders.
<b>Question 1b: the Proposed Exemption – the Exercise Period – If no, what are the most appropriate minimum and maximum exercise periods, and why?</b>			
7	<i>10-15 days</i>	<p>One commenter thought the exercise period could be reduced to 10 to 15 days and still meet all requirements for sufficient time for shareholders to act.</p> <p>One commenter noted that one of the primary reasons the current exemption is not widely used is due to the extended time required to complete a rights offerings. The current minimum exercise period was implemented in a time when electronic distribution and access to documents was not widely available, and issuers and investors relied on the postal service for distribution. This process, which is no longer necessary, extends the process by weeks. Given the ability of issuers to communicate to security holders in real-time, we propose that the minimum exercise period be shortened to two business weeks (14 business days). The commenter does not believe that shortening this period will prejudice shareholders, and will allow issuers to access the market in a much more timely and efficient manner.</p> <p>One commenter noted in other jurisdictions, the minimum exercise period is 14 days (UK); similarly maximum periods are often restricted to 70 days (10 week maximum). A two-week period should be more than sufficient for shareholders to be notified of a rights issue</p>	<p>We thank the commenters for their input. As indicated above, we have decided that a minimum exercise period of 21 days is appropriate.</p> <p>Please also see the response to comment 2 above.</p>

No.	Subject	Summarized Comment	Response
		<p>and act accordingly. The commenter would challenge why 3 weeks is necessary to reach beneficial security holders when in the UK 14 days is deemed sufficient and has become established without material problems. Similarly, a 10 week period seems unnecessarily long. Having the option as an issuer to close the rights offering within 14 days removes material timing uncertainty. The reduction in timing risk reduces the cost of any underwriting fees to be paid.</p> <p>Should of course a corporate [issuer] wish to extend a rights issue, or if for example a change to the terms in favour of shareholders is proposed (such as a reduction in exercise price), the commenter would also suggest that an underwriter have the right to extend the period of exercise once for an additional 2 weeks, subject to the total subscription period being within the maximum timeframe. Again this would serve to protect the corporate issuer's shareholders, both in price paid and additionally reducing the possibility of otherwise having the underwriters own a large block of shares and creating a significant stock overhang. This capacity to extend in extremis would also reduce underwriting fees.</p> <p>One commenter noted that it had submitted proposals to improve the efficiency of the rights offering regime in Canada in order to make rights offerings more attractive and viable financing options for issuers and their security holders, and believe the 21-day minimum period should be reduced to 10 business days. The commenter believes that issuers should be permitted to launch the rights offering by issuing a news release and electronically filing the Notice and Circular and should not be required to mail the Notice to security holders. Allowing electronic filing of the Notice and Circular will enable the minimum period to be reduced to 10 business days. The commenter further believes that 10 business days is sufficient because recipients of the rights are existing security holders who are already familiar with the listed issuer and, as a result, do not require 21 days to make an</p>	

No.	Subject	Summarized Comment	Response
		<p>informed investment decision. Secondary market purchasers of rights are not prejudiced by a shortened exercise period as their investment decision is made at the time they purchase the rights and is not based on receipt of a disclosure document. These purchasers will instead rely on publicly available disclosure.</p>	
8	<i>Other</i>	<p>One commenter agrees with the concerns in respect of contacting beneficial security holders and allowing them sufficient time to consider participating in the rights offering. The commenter notes that the regime for contacting beneficial security holders in National Instrument 54-101 <i>Communication with Beneficial Owners of Securities of a Reporting Issuer</i> requires issuers to send meeting materials at least three business days before the 21st day before the meeting. The commenter thinks the minimum exercise period should be not less than this period, meaning that if the exercise period commenced on the date that the Notice is sent, the exercise period would be a minimum of 24 days. Another way to achieve the same end is if the exercise period is at least 21 days and commences at least three business days after the date of mailing of the Notice.</p>	<p>We thank the commenter for their input. We note that the exercise period for rights offerings has always been a minimum of 21 days. If an issuer believes more time is needed to contact beneficial security holders, the issuer may increase the exercise period.</p>
9	<i>Related to trading</i>	<p>One commenter suggested a possible metric that it needs to trade for a minimum of 10 days, so all market participants are aware and can buy and sell the rights.</p> <p>One commenter suggests that the trading period of rights should cease at least 3 business days prior to the end of the exercise period, to allow settlement of rights in good form for delivery to the agent.</p>	<p>We thank the commenters for their input. We note that the rules and policies relating to the trading of rights are set by the exchanges.</p>
10	<i>Reference to UK timing</i>	<p>One commenter noted that the UK Report indicates that a long exercise period can be problematic for issuers and can lead to behaviours that impact the integrity of the market. The CSA should consider whether it can further reduce the minimum rights issue offer period from 21 days and should benchmark to other jurisdictions</p>	<p>We thank the commenter for their input. As indicated above, we have decided that a minimum exercise period of 21 days is appropriate.</p>

No.	Subject	Summarized Comment	Response
		<p>(including other aspects of their rights offering regime) as part of its determination. The UK also has a process whereby issuers can choose through a shareholder meeting to disapply the statutory pre-emption rights so that they do not have to offer the rights to certain overseas shareholders but the rights otherwise attributable to those shareholders are sold for their benefit. This shortens the exercise period and should be examined as an option. The timetable for a rights offering will also have to take into account corporate law requirements for a meeting for shareholder approval, and listing requirements of the applicable exchange so they need to be reviewed to see if they are still appropriate.</p>	<p>As far as we are aware, there are no statutory pre-emption rights under corporate law in Canada. As a result, we do not believe there is a necessity for security holder approval of rights offerings.</p>
<p><b>Question 2: the Proposed Exemption – the Notice – Do you foresee any challenges with the requirement that the Notice be filed and sent before the exercise period begins, and that the Circular be filed concurrently with the Notice?</b></p>			
11	<i>No</i>	<p>Seven commenters do not foresee challenges.</p> <p>One commenter noted issuers are free to prepare the Notice and Circular in accordance with their own internal timing requirements.</p> <p>One commenter suggested that the Notice be able to be distributed to shareholders electronically.</p> <p>One commenter does not foresee challenges unless the exercise period were to commence three business days (or some other period of time) after the date of mailing of the Notice. In that case the Circular could be filed not later than the first day of the exercise period. .</p> <p>One commenter noted that the exercise period (or offer period) may have to occur after the Notice is filed and sent and the Circular filed, and a shareholder meeting has also been held. The record date and the offer period may start subsequent to the announcement of the offering so that shareholders can sell or buy their holdings if they prefer not to participate.</p>	<p>We acknowledge the comments.</p> <p>We note that issuers may be able to send the Notice electronically. For guidance on electronic delivery, issuers should review National Policy 11-201 <i>Electronic Delivery of Documents</i>.</p> <p>As indicated above, we are not aware of any statutory pre-emption rights in Canada. As a result, we do not believe there is a necessity for security holder approval of rights offerings.</p>

No.	Subject	Summarized Comment	Response
12	<i>Other</i>	<p>One commenter did not see an issue with requiring the Notice and Circular to be filed concurrently, before the exercise period begins. However, another timing consideration is the coordination of the record date, the ex-distribution date and the trading date. Currently, all requisite documentation must be filed with the relevant Exchange at least seven trading days prior to the record date. This seven-day period is designed to enable the Exchange to properly notify the market of the ex-distribution date and the record date and to list the rights two trading days prior to the record date. The Exchange will also issue a bulletin in respect of the rights offering that provides market participants with adequate notice of the rights offering and the key terms related to it. However, based on the review of Exchange procedures, the commenter believes that the Exchanges may (subject to regulatory approval) seek to reduce this seven-day period to five trading days without compromising the objective of providing adequate notice to market participants. These proposed measures, along with allowing electronic filing of both the Notice and Circular and a 10 business day minimum period, would reduce the time required to complete a rights offering in Canada, as illustrated in the chart below. The column entitled “CSA Proposal” outlines the approximately 30-day period required to complete a rights offering under the timeline in the Request for Comment, including a 21 day minimum period. The column entitled “TSX Proposed Timeline” demonstrates how the timeline for a rights offering may be reduced to approximately 22 days if issuers were permitted to launch the rights offering by issuing a news release and filing the Circular and Notice, and if the minimum period were reduced to 10 business days. The timelines in both columns assume the Exchanges have reduced the seven trading day period referred to above to five trading days.</p>	<p>We thank the commenter for their input.</p> <p>We appreciate the commenter’s willingness to make their processes more efficient.</p>

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<b>Question 3a: The Proposed Exemption – the Notice and Circular – Do you foresee any challenges with requiring the issuer to send a paper copy of the Notice?</b>																																																			
13	Yes	<p>Four commenters saw some challenges with requiring the issuer to send a paper copy of the Notice.</p> <p>One commenter noted electronic communication is now a widely</p>					<p>We thank the commenters for their input. The requirement is for the issuer to <i>send</i> the notice to its security holders. As noted above,</p>																																												

No.	Subject	Summarized Comment	Response
		<p>accepted business practice, and as such, issuers should be permitted to communicate with shareholders in such a manner. By permitting electronic distribution of the Notice, the time required to undertake a rights offering could be shortened, resulting in a more efficient process.</p> <p>One commenter believed that the requirement to send a notice of a proposed rights offering to “security holders” as a condition of availability of the exemption is unclear, if not problematic. The commenter asks if the reference to “security holders” is intended to mean registered holders, or is it intended to mean beneficial owners? If intended to mean registered holders, then the notice delivery requirement will not operate so as to ensure that all beneficial owners are made aware of the rights offering. If intended to mean beneficial owners, then a requirement to ensure delivery to all beneficial owners at a particular point in time may be difficult or impossible for the issuer to comply with, as the process for communication with beneficial owners that is contemplated by National Instrument 54-101 is currently limited to proxy-related materials, in addition to being time-consuming and costly. The commenter notes that currently, an issuer will distribute its rights offering circular or prospectus to all of its registered shareholders, together with any “rights offering certificates” or other related materials. Typically, The Canadian Depository for Securities Limited (“CDS”) will be one of those registered shareholders, and will work with the issuer to distribute copies of those materials to beneficial owners through the network of CDS participants holding securities on behalf of those beneficial owners. While an issuer may be expected to use reasonable efforts to help facilitate distribution of those materials to beneficial owners by CDS and its participants, ensuring that they do in fact reach all beneficial owners is outside the issuer’s control. The commenter <b>recommends</b> that the requirement to deliver the notice to security holders should be clearly limited only to <i>registered</i> shareholders, with</p>	<p>issuers may be able to send the Notice electronically. The expectation is that beneficial security holders would receive the Notice.</p>

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		<p>the possible addition of a requirement that the issuer take certain reasonable steps to bring the rights offering to the attention of beneficial owners (such as, for example, a requirement to issue a press release containing some or all of the information prescribed by the notice).</p> <p>One commenter noted that printing and mailing of a disclosure document to all security holders involves a significant amount of time and cost, and believed the CSA should allow issuers to file both the Notice and Circular electronically and issue a news release to provide notice of the proposed rights offering, rather than require the Notice to be mailed to security holders. This will reduce the time required to complete a rights offering. Beneficial holders are not sent a rights certificate, so the requirement to mail the Notice to all security holders will lead to additional time and expense.</p> <p>In one commenter's view, the proposed requirement to send a copy of the Notice to security holder would add an unnecessary expense to the rights offering process. The commenter would propose that that requirement be removed and replaced with an obligation on the issuer to issue a press release containing the information set forth in the Notice, concurrently with the filing of the Notice on SEDAR.</p> <p>The commenter's view is that any effort which results in a reduction in the cost to raise capital is welcomed by the commenter's members. In the commenter's view, the proposed requirement to deliver a paper copy of the Notice to security holders should not be necessary if the issuer issues a press release containing the information in the Notice, files the Notice on SEDAR and posts the Notice on the issuer's website. In any event, issuers whose securities have been issued and are maintained on a book-entry only basis should not be required to deliver a paper copy of the Notice if the issuer satisfies these</p>	



No.	Subject	Summarized Comment	Response
		conditions.	
14	<i>No</i>	<p>Six commenters did not see challenges with requiring the issuer to send a paper copy of the notice.</p> <p>One commenter does not see challenges with the Notice as it mostly goes to intermediaries.</p> <p>One commenter did not see a challenge as there is other continuous disclosure documentation which must be made available to security holders in paper format.</p> <p>One commenter noted that a reasonable attempt should be made to contact smaller shareholders.</p> <p>One commenter does not foresee any significant challenges. A requirement to send the Notice to all security holders and make the Circular available on SEDAR is analogous to the use of "notice-and-access" in respect of security holders' meeting materials. The commenter thinks applying the same principles to rights offerings makes sense, up to a point. In respect of the argument that the issuer would be sending rights certificates in any event and therefore should also send the Notice, the commenter noted that rights certificates would only be sent to registered holders. As such, the commenter considers this argument to be only a partial justification for a requirement to send the Notice to beneficial holders as well. Given the importance of a notification of a rights offering, however, the commenter's view is that the requirement to send the Notice to all security holders is justified.</p> <p>One commenter noted that the issuer should be able to provide delivery of the Notice by electronic means if the shareholder has accepted such method of delivery. If they have not then the Notice</p>	We acknowledge the comments.

No.	Subject	Summarized Comment	Response
		<p>should be sent by mail.</p> <p>One commenter views this change positively as it should greatly reduce the cost of an exempt rights offering without prejudicing investors.</p>	
15	<i>Sending certificates</i>	<p>One commenter noted that in a number of places in the notice of the Proposed Amendments, reference is made to the requirement to “send certificates” in the context of explaining why the requirement to send the proposed notice on Form 45-106F14 would not be additionally burdensome as certificates will be required to be sent. The commenter does not believe the assumption that is implied, that certificates would generally or broadly be required to be sent, is necessarily correct. Given the prevalence of beneficial owners holding their entitlements indirectly through brokers or other intermediaries, certificates would not broadly be sent as they would be sent only to registered holders.</p>	We acknowledge the comments.
<b>Question 3b: The Proposed Exemption – the Notice and Circular – Do you foresee any challenges with the Circular only being available electronically?</b>			
16	<i>Yes</i>	<p>One commenter strongly recommends that the Notice, if provided electronically, be required to have a specific link to the offering circular (as is required for delivery for the Fund Facts document). The commenter is concerned that retail investors will find it difficult to access the offering circular if it is simply made available on SEDAR. Many retail investors are unlikely to be familiar with SEDAR, which can be difficult to navigate. It is also clear that fewer retail investors will review the offering circular if it is not delivered to them but rather only made available (given what the commenter has learned from behaviour economics). If the issuer is unable to deliver to certain shareholders electronically, the Notice should be sent with clear instructions on how to access the offering circular electronically and also a telephone number should be provided for those who wish to</p>	<p>We acknowledge the comments.</p> <p>We have included in the Notice a clear statement directing security holders to where they can access or obtain a copy of the Rights Offering Circular.</p>

No.	Subject	Summarized Comment	Response
		obtain a hard copy of it (at no expense to the shareholder).	
17	<i>No</i>	<p>Five commenters did not see any challenges with the Circular only being available electronically.</p> <p>One commenter did not see a challenge, as many Canadian investors are familiar and proficient with SEDAR.</p> <p>One commenter did not see any challenges if a Notice is sent pointing shareholders to where it can be found electronically (company website or SEDAR, etc.).</p>	We acknowledge the comments.
18	<i>Access to internet</i>	One commenter expects that a small minority of security holders may not have access to the internet, so there is the potential for prejudice to those persons. The commenter thinks it is outweighed by the benefit to issuers of being able to avoid the cost of printing and mailing hard copies of the Circular.	We acknowledge the comments.
<b>Question 4a: The Proposed Exemption – the Circular – Have we included the right information for issuers to address in their disclosure?</b>			
19	<i>Yes</i>	<p>Five commenters indicated we included the right information.</p> <p>One commenter thought the proposed changes cover the key areas.</p> <p>One commenter noted that information about the business of the issuer will be readily available from other sources. Inclusion of additional information would unduly lengthen the Circular.</p> <p>One commenter believes that the proposed prescribed information is sufficient.</p>	We acknowledge the comments.
20	<i>No</i>	One commenter would add additional information that would reasonably be expected to impact the underlying share price throughout the rights offering, such as if quarterly results are due to be	We have added a requirement for the issuer to disclose any material facts and material changes that have

No.	Subject	Summarized Comment	Response
		<p>released during the rights offering or a dividend is due to go ex and details thereof, etc.</p> <p>One commenter noted that there is much required disclosure about issuers' future financial circumstances (e.g. at the top of Part 2 of the Proposed Amendment), and it strikes the commenter that it is far too definitive and needs to be softened to reflect the fact that there will be much uncertainty about future cash requirements, etc. (forward looking disclosure).</p>	<p>not yet been disclosed and to include a statement that there are no undisclosed material facts or material changes.</p> <p>We thank the commenter for their input on future financial circumstances. We note that the instructions to the Rights Offering Circular remind issuers disclosing forward-looking information in the Rights Offering Circular that they must comply with the disclosure requirements of Part 4A.3 of NI 51-102.</p>
<p><b>Question 4b: The Proposed Exemption – the Circular – Is there any other information that would be important to investors making an investment decision in the rights offering?</b></p>			
21	<i>Yes</i>	<p>One commenter noted it may be advisable to include a “recent developments” section to allow for disclosure regarding any issues that the board of the issuer believes may be relevant to shareholders.</p> <p>As noted above, one commenter noted the Circular should also include any additional information that would reasonably be expected to impact the underlying share price.</p> <p>One commenter noted question 35 in the Circular asks “Will we issue fractional rights?” The commenter thinks the issue will more frequently be whether fractional underlying securities will be issued on the exercise of rights, and suggests the question be amended accordingly.</p> <p>One commenter suggests that the lead underwriters or stand-by</p>	<p>We have added a requirement for the issuer to disclose any material facts and material changes that have not yet been disclosed and to include a statement that there are no undisclosed material facts or material changes.</p> <p>We acknowledge the comments about fractional rights. We have changed the question to “Will we issue fractional underlying securities on exercise of rights?”.</p>

No.	Subject	Summarized Comment	Response
		<p>guarantors should be identified and any fees paid in respect of the stand-by fee and any/or any underwriting fee in the aggregate should be disclosed. The circumstances in which the underwriting or stand-by guarantee can be withdrawn also should be disclosed.</p> <p>The interests of persons involved in the offer and any conflicts of interest should be identified and avoided, and/or appropriately managed.</p>	<p>With respect to the comment on disclosure of underwriters and stand-by guarantors, we note that section 24 of Form 45-106F15 requires disclosure of stand-by guarantors including their fees and whether they are a related party. Sections 27 and 28 of Form 45-106F15 require disclosure of the managing dealers and soliciting dealers including disclosure of their fees and conflicts. We think the required disclosure is sufficient.</p>
22	<i>No</i>	Two commenters indicated that there is no other information that would be important to investors.	We acknowledge the comments.
<b>Question 5: The Proposed Exemption – the Closing News Release – Do you think that this disclosure will be unduly burdensome? If so, what disclosure would be more appropriate?</b>			
23	<i>No</i>	<p>Five commenters did not think this disclosure would be burdensome.</p> <p>One commenter thought the closing news release disclosure is appropriate.</p> <p>One commenter thought the proposed disclosure in a closing news release is appropriate, and that such information should be readily available to the issuer, and not burdensome to provide.</p> <p>One commenter noted that issuers should have ready access to the requisite information.</p> <p>One commented did not think the disclosure would be unduly burdensome but also thought disclosure should include all statistics on</p>	<p>We acknowledge the comments.</p> <p>With respect to the comment about full disclosure of all details of the rights issue, we thank the commenter for their input. We think the disclosure requirements of the closing news release, including the requirement to separate out the securities distributed under both the basic subscription privilege and additional subscription privilege as between insiders and all other</p>

No.	Subject	Summarized Comment	Response
		<p>the result of the rights offering. Full disclosure of all details of the rights issue, including information such as what percentage of subscribing shares requested the additional subscription privilege (and not just the number subsequently distributed), are essential in establishing a true picture of demand by shareholders. Partial disclosure could allow obfuscation by management of the true pattern of shareholder demand.</p> <p>One commenter does not believe that the information required to be disclosed in the closing press release will be unduly burdensome. However, the commenter notes that the issuer may not necessarily know, at the time of closing, the number of shares issued to persons that were insiders prior to the rights offering or who become insiders as a result of the rights offering, in either case where the security holder is an insider solely as a result of holding 10% of share of the issuer's outstanding voting securities and disclosure of the holder's securities of the issuer is known only as a result of insider reports and/or early warning filings. The commenter would suggest that, in those circumstances, the issuer be entitled to rely on SEDAR filings for purposes of its closing press release disclosures or that the disclosure requirement be removed on the basis that the insider will have an obligation to make the disclosure as required by applicable securities laws.</p>	<p>persons, as a group, are appropriate.</p> <p>We acknowledge the comment about information on insiders. We have revised the disclosure requirements in subparagraphs 2.1(5) (b)(i) and 2.1(5)(c)(i) of NI 45-106 so that disclosure is only required to the knowledge of the issuer after reasonable enquiry.</p>
<b>Question 6a: The Proposed Exemption – Trading of Rights – Should we continue to allow rights to be traded? If so, why?</b>			
24	<i>Yes</i>	<p>Six commenters said we should continue to allow rights to be traded.</p> <p>One commenter thought that rights should trade to ensure that shareholders who can't exercise get some value for the discounted offering.</p> <p>One commenter noted it is extremely important that rights should be</p>	<p>We acknowledge the comments. We agree that we should continue to allow rights to be traded.</p>

No.	Subject	Summarized Comment	Response
		<p>allowed to be traded. The trading of rights improves the efficiency and effectiveness of the capital raising process, as it increases the likelihood of a fully subscribed offering, and also provides a much more fair process for all shareholders. Those shareholders that are not in a position to obtain or exercise their rights due to jurisdictional or other issues, are able to obtain the benefits of the rights offering by trading the rights. By making the process more fair and more likely to provide the issuer with a fully subscribed offering, the exemption will be more widely utilized.</p> <p>One commenter believes that from an investor prospective, rights should continue to be traded as such trading permits investors to monetize their rights in the event they do not have access to sufficient liquid funds to satisfy the exercise price. Allowing rights to trade may also have the benefit of setting a tangible value to the rights in the event of a civil lawsuit for misrepresentation. Issuers can also benefit in these circumstances, because the capital raising objective of a rights offering may be defeated if the take up of the securities by existing security holders is low due to lack of funds.</p> <p>One commenter strongly believes that the CSA should continue to allow rights to be traded. The commenter was generally of the view that rights offerings are inherently fair in that they afford all existing security holders the opportunity to maintain their pro rata position in the issuer. Permitting trading of rights also allows security holders who do not wish to, or are ineligible to, participate in the rights offering the ability to sell their rights to investors who wish to participate in the offering. This enables the issuer to raise capital and means security holders who are ineligible to participate in the rights offering are not diluted without compensation.</p> <p>The commenter does not believe that the trading of rights adds complexity or cost to a rights offering. The Exchanges do not charge a</p>	

No.	Subject	Summarized Comment	Response
		<p>listing fee to the issuer for the listing of rights. If the securities underlying the rights are of a listed class, the Exchanges will require notice of the offering at least five trading days prior to the record date, whether or not the rights will trade, in order to set the ex-distribution date and notify the market by issuing a bulletin as described in the response to question 2 above. Therefore, the commenter does not believe that permitting trading of the rights will add to the timeline for a rights offering, particularly if the minimum exercise period is reduced to 10 business days. The Exchanges are also considering amendments to their rules and policies to reduce the period of time between when the Exchange is provided with the required documentation and the record date. Under current TSX and TSX Venture rules, rights that have received all required regulatory approvals are automatically listed if the rights entitle security holders to purchase securities of a listed class. The commenter believes that the CSA should continue to allow rights to be traded.</p> <p>One commenter agrees that the trading of rights can add complexity to the rights offering, but the commenter thinks the ability to make rights saleable is important. The commenter agrees with the arguments noted in the question with respect to monetization and the increased likelihood that saleable rights will be exercised. To expand on the argument in respect of foreign security holders, even if the sale generates little or no return for the foreign holders, it is still better than excluding them altogether and issuers should continue to be entitled to make that election.</p> <p>One commenter believes that rights should be allowed to be listed and traded in order to permit shareholders to elect to monetize the rights (particularly non-resident investors); and to encourage greater levels of participation in the rights offering and therefore the amount of proceeds raised.</p>	



No.	Subject	Summarized Comment	Response
25	<i>No</i>	One commenter did not think we should allow rights to trade.	We thank the commenter for their input; however, we think that rights should be allowed to trade.
26	<i>Research</i>	<p>One commenter encouraged the CSA to carefully examine this issue, including any empirical evidence such as the research done by Insead, and consider how the individual countries' regulations impact on what are the costs and benefits to restricting tradability and what regime most improves shareholder value. In addition, the CSA needs to examine the impact of tradability or non-tradability (and other rules) on the ability of shareholders who are foreign to take up the rights; or Canadian shareholders ability to participate or be compensated in respect of a rights offering of a foreign issuer.</p> <p>The commenter noted that recent research has found that investors desire rights tradability and react better to rights offerings with tradable rights. There is a greater potential for shareholder abuse if rights are not tradable. The commenter suggests that the CSA should examine the existing research to determine what type of regime most enhances shareholder value. In particular, questions to be examined include:</p> <ul style="list-style-type: none"> <li>- Is shareholder value enhanced in those countries that allow for choice by issuers in tradability of rights versus mandating tradability?</li> <li>- Is shareholder value enhanced by setting out conditions for trading restrictions? (in the UK and Hong Kong, offerings without tradable rights are called "open offers" and are subject to a separate set of regulations including discount limits (10% in the UK)).</li> <li>- Do issuers perform better after offerings with tradable rights versus those with non-tradable rights?</li> </ul>	<p>We acknowledge the comment. We have considered the research to which the commenter refers.</p> <p>We think, in the Canadian context, that the benefits of allowing rights to trade outweigh any costs.</p>

No.	Subject	Summarized Comment	Response
		- What are the reasons issuers make rights non-tradable?	
<b>Question 6b: The Proposed Exemption – Trading of Rights – What are the benefits of not allowing rights to be traded?</b>			
27	<i>Benefits</i>	<p>One commenter thought the only advantage is if the issue could be closed quicker i.e. 10 days total, however the commenter thought they should trade for everyone to benefit.</p> <p>One commenter noted the benefits of not allowing rights to be traded are reducing cost to the issuing corporate / sponsoring bank. The proposed changes in timeline for rights exercise will have a materially larger impact than the ‘few days’ additional to the timeline required for trading. Potentially the cost of trading in proportion to the size of the capital to be raised in the rights issue could be estimated to set a minimum size rights above which trading of rights should be expected.</p> <p>One commenter noted if the rights are not allowed to be traded the rights offering is less complex and only existing security holders are entitled to participate.</p> <p>One commenter noted that by not allowing the rights to trade, issuers may be less vulnerable to unsolicited attempts to effect a change of control at a discount to the market, as aggregation of rights (and the underlying securities) would be more difficult. However, the commenter believes that the benefits of permitting trading in the rights generally outweigh any benefit of prohibiting trading.</p>	We thank the commenters for their input. We acknowledge there may be benefits of not allowing rights to be traded; however, we think that the costs of not allowing rights to be traded outweigh the benefits.
28	<i>No benefits</i>	Two commenters did not see any benefits of not allowing rights to be traded.	We acknowledge the comments.

No.	Subject	Summarized Comment	Response
<b>Question 6c: The Proposed Exemption – Trading of Rights – Should issuers have the option of not listing rights for trading?</b>			
29	<i>Yes</i>	<p>Four commenters thought issuers should have the option of not listing rights for trading.</p> <p>One commenter stated that while listing rights will provide issuers with the ability to raise capital through a broader potential group of investors, they should be provided with the opportunity to decline a listing if it becomes cost prohibitive.</p> <p>One commenter noted an option should be available if the cost of trading is prohibitive relative to capital to be raised. In any extent, the issuing company should ensure that the rights are transferable between entities to reduce settlement problems over ex. date.</p> <p>One commenter noted that if, for example, an issuer has a very small foreign security holder base and the benefit to those persons would not justify the cost to the issuer of listing the rights, the issuer should have the option of not listing rights for trading.</p> <p>One commenter believes that issuers should have the option of not listing rights for trading, as the cost of the listing may not be warranted in the circumstances.</p>	<p>We thank the commenters for their input. We have not seen evidence that the listing of rights for trading adds any significant cost or time to an offering. Accordingly, we think the benefits to the security holder of listing rights for trading outweigh the costs to the issuer.</p>
30	<i>No</i>	<p>Two commenters thought issuers should not have the option of not listing rights for trading.</p> <p>One commenter noted in order to provide a fair process to all security holders, they do not believe that issuers should have the option of not listing rights for trading.</p>	<p>We acknowledge the comments.</p>
<b>Question 7a: The Proposed Exemption – the Review Period – Do you agree with our proposal to remove pre-offering review?</b>			
31	<i>Yes</i>	<p>Six commenters agreed with removing pre-offering review.</p>	<p>We acknowledge the comments.</p>

No.	Subject	Summarized Comment	Response
		<p>One commenter indicated that removing pre-offering review for rights offerings by reporting issuers, which are already subject to continuous disclosure rules and the civil liability for secondary market disclosure regime should result in an increased use of the exemption.</p> <p>One commenter supported the proposal to remove the pre-offering review. The commenter believes that reducing the standard timetable and associated costs of completing a rights offering are key to increasing the viability of rights offerings as a useful way for listed issuers to access capital.</p> <p>In one commenter's experience, the regulatory review process is a disincentive to completing a rights offering and the benefits conferred by such process do not justify the cost to issuers and security holders of the inability to conduct rights offerings on a reasonable and predictable time frame.</p> <p>One commenter agrees with the proposal to eliminate the pre-offering review of the Circular. In the commenter's view, this proposal should reduce offering costs and management resources, and enable issuers to complete a rights offering more quickly and efficiently. Concerns over the elimination of a regulatory review should be adequately addressed by the introduction of statutory liability for disclosure in the Circular.</p>	
32	<i>No</i>	<p>Two commenters did not agree with removing pre-offering review. One commenter thought that given the number of changes to the Proposed Exemption, including the increase to the permitted dilution limit to 100%, they believe it is appropriate for the regulators to undertake a form of review of the Circular. The review should include the items articulated in question 7(c). In order to ensure that the objectives of increasing the efficiency and effectiveness of the</p>	<p>We thank the commenters for their input. However, we have decided to remove pre-offering review as we think the exemption provides sufficient safeguards for investor protection. Some jurisdictions will review rights offerings on a post-</p>

No.	Subject	Summarized Comment	Response
		<p>Proposed Exemption are retained, they recommend that the review period be limited to 3 days, consistent with the review period for a short form prospectus review. It is also important that the review period of the listing exchange also be aligned with the regulatory review to ensure that the objectives of the Proposed Exemption are realized.</p> <p>One commenter strongly recommends that the CSA not completely abandon the regulatory review of the Offering Circular. Regulators in leading jurisdictions still require a prospectus, albeit a shorter one, that is subject to regulatory scrutiny before issuance. The commenter believes that reporting issuers will be much more likely to have compliant Offering Circulars and compliant processes if there is regulatory review and oversight. CSA Staff Notice 51-341 <i>Continuous Review Program for the Fiscal Year ended March 31, 2014</i> found 76% of the reporting issuers subject to a full review or an issue-oriented review of their continuous disclosure documents were deficient and required improvements to their continuous disclosure or were referred to enforcement, cease traded or placed on the default list. In the face of this data, it makes little sense for the regulator to step away from its oversight function. Review of the Notice and Offering Circular should be carried out. In order to achieve a reduced time frame, the commenter recommends that securities regulators improve their internal processes to reduce the time it takes to conduct a regulatory review of the Offering Circular. In the alternative, the commenter suggests a process whereby issuers would have to file the Notice and Offering Circular with the relevant securities regulator and a certain percentage of those filed would be selected for regulatory review based on a risk-based selection process. Alternatively, the commenter suggests that the expedited process should be available only to listed issuers and continue to require regulatory review of the Offering Circular for unlisted issuers.</p>	<p>distribution basis, in most cases, for a period of two years after adoption. CSA staff will also review rights offering documents as part of our continuous disclosure program.</p> <p>Since the introduction of NI 51-102, the CSA has had a continuous disclosure review program in place. CSA jurisdictions use various tools to select reporting issuers who are most likely to have deficiencies in their disclosure record. As a result, the 76% sample of companies reviewed who required improvements in their disclosure is unlikely to be representative of the entire population.</p>

No.	Subject	Summarized Comment	Response
<b>Question 7b: The Proposed Exemption – the Review Period – Do the benefits of providing issuers with faster access to capital outweigh the costs of eliminating our review?</b>			
33	<i>Yes</i>	<p>Six commenters thought the benefits of providing issuers with faster access to capital outweigh the risks.</p> <p>One commenter noted that the benefits outweigh the costs, particularly if regulators include reviews of Notices and Circulars as part of their continuous disclosure and/or post-distribution focus reviews.</p> <p>One commenter believes the benefits of making rights offerings a more viable way for issuers to raise capital by reducing the timetable outweigh the costs of eliminating review by the CSA.</p> <p>One commenter noted that the inclusion of civil liability for secondary market disclosure in the Proposed Amendments will induce issuers to exercise vigilance in preparing their continuous disclosure, including the Circular. This will partially offset the loss of the protection conferred by the regulatory review process.</p>	We acknowledge the comments.
34	<i>No</i>	<p>One commenter disagrees that the user friendly format of the Offering Circular and the addition of civil liability for secondary market disclosure mitigates the reduced level of investor protection which results from no regulatory review of the Notice and Offering Circular. It is far preferable to have a regulatory regime that ensures compliance and adequate investor protection ex ante than it is to achieve it ex poste, after harm has occurred. The commenter supports the proposal to have the statutory civil liability for secondary market disclosure provisions apply to the acquisition of securities in a rights offering including through misrepresentation in an issuer’s Offering Circular. This furthers the policy objective of access to justice when investors are harmed. Given that investors will rely on the continuous disclosure record of the issuer when deciding what action to take with respect to the Offering Circular, it also makes sense to extend the statutory</p>	We thank the commenter for their input. For the reasons set out above, we have decided to remove pre-offering review.

No.	Subject	Summarized Comment	Response
		liability for secondary market disclosure to the Offering Circular itself. However, it does not obviate the need for regulatory review. While secondary market liability provisions will go some way to ensure compliance, it is not sufficient (including the fact that not all instances will result in an economically viable action, and the misrepresentation may not come to light until after the statutory limitation period).	
<b>Question 7c: The Proposed Exemption – the Review Period – Are there other areas that we should focus our post-distribution review on?</b>			
35		<p>One commenter thought the post-distribution review should focus on adherence to the policy and not the specifics as to sufficient funds, etc.</p> <p>One commenter thought we should focus on whether the capital raised was used for the prescribed purpose stated in the offering, to avoid management changing the use of proceeds without shareholder consent.</p> <p>Three commenters believed the areas referenced in our question were sufficient.</p>	We acknowledge the comments.
<b>Question 8a: The Proposed Exemption – Statutory Recourse – Is civil liability for secondary market disclosure provisions the appropriate standard of liability to protect investors given that there will be no review by CSA Staff of an issuer’s rights offerings?</b>			
36	<i>Yes</i>	<p>Five commenters thought the civil liability for secondary market disclosure provisions are appropriate.</p> <p>One commenter’s view is that the alternative standards of statutory liability are not the right approach. Liability for disclosure in, for example, a take-over bid circular, is not appropriate in that the proposed Circular disclosure is less substantive and relies on an issuer's existing disclosure record. In light of the fact that secondary market liability is proposed, the commenter does not understand why the Circular must include a certificate signed by directors and officers.</p>	We acknowledge the comments.

No.	Subject	Summarized Comment	Response
		<p>One commenter supports the proposal to have the statutory civil liability for secondary market disclosure provisions apply to the acquisition of securities in a rights offering including through misrepresentation in an issuer's Offering Circular. This furthers the policy objective of access to justice when investors are harmed. Given that investors will rely on the continuous disclosure record of the issuer when deciding what action to take with respect to the Offering Circular, it also makes sense to extend the statutory liability for secondary market disclosure to the Offering Circular itself. However, it does not obviate the need for regulatory review. While secondary market liability provisions will go some way to ensure compliance, it is not sufficient (including the fact that not all instances will result in an economically viable action, and the misrepresentation may not come to light until after the statutory limitation period).</p> <p>One commenter believes that civil liability for secondary market disclosure would be an appropriate standard of liability for misrepresentations in a rights offering circular and related continuous disclosure record used in connection with a rights offering. That approach should assist in enhancing the integrity of Canada's capital markets and investor confidence in rights offerings as a financing method.</p>	
37	<i>Other</i>	<p>One commenter indicated that while civil liability was an advance on the current situation, it is still not ideal.</p> <p>One commenter noted in determining the type of recourse available to investors, the regulators should consider whether there is a pre-offering review of the Circular, and whether the securities available on the exercise of the rights will be available to new shareholders that are not accredited investors.</p>	We thank the commenters for their input. We have decided that civil liability for secondary market disclosure is the appropriate standard of liability.
<b>Question 8b: The Proposed Exemption – Statutory Recourse – Would requiring a contractual right of action for misrepresentations in the</b>			



No.	Subject	Summarized Comment	Response
<b>Circular be preferable? If so, what impact would this standard of liability have on the length and complexity of the Circular?</b>			
38	<i>Yes</i>	<p>One commenter believes a contractual right of action is preferable as it would ensure that both the corporate and sponsoring bank are liable for misrepresentation or fraud. This standard of liability should have no real impact on issuers who have ‘nothing to hide’. If the circular is to be made available on SEDAR / company website, then including additional documents by reference to similar weblinks in the commenter’s view does not materially add to any degree of complexity.</p>	<p>We thank the commenter for their input; however, we think statutory civil liability for secondary market disclosure is the appropriate standard of liability.</p>
39	<i>No</i>	<p>Three commenters do not believe requiring a contractual right of action would be preferable.</p> <p>One commenter noted they do not believe that requiring a contractual right of action for a misrepresentation in the circular would be preferable to civil liability for secondary market disclosure. However, given the time and cost involved with respect to civil lawsuits, it will be important for the regulators to monitor the use of the exemption and the quality of the disclosure made by issuers once the amendments to the exemption are adopted and encourage best disclosure practices at a very early stage.</p> <p>In one commenter’s view, a requirement to incorporate an issuer's disclosure record by reference would impede rights offerings if there was a corresponding requirement to obtain the consent of experts referenced therein. As such, if a contractual right of action would necessitate incorporation by reference, the commenter would not support this standard of liability. In addition, a requirement to incorporate documents into the Circular by reference combined with a requirement to translate the Circular would mean that the continuous disclosure documents would have to be translated. This would be a major impediment to conducting rights offerings pursuant to the Proposed Amendments for any issuer that does not translate its</p>	<p>We acknowledge the comments.</p>

No.	Subject	Summarized Comment	Response
		<p>continuous disclosure documents in the ordinary course.</p> <p>One commenter does not believe that requiring a contractual right of action would be preferable. In their view, that approach would only serve to add time and expense to the rights offering process.</p>	
<b>Question 9a: The Proposed Exemption – Would security holders benefit from knowing the results of the basic subscription before making an investment decision through the additional subscription privilege?</b>			
40	<i>Yes</i>	<p>Two commenters thought that security holders could benefit from knowing the results of the basic subscription.</p> <p>One commenter noted that some investors would benefit from the receipt of additional information regarding the take up of securities under the basic subscription privilege, particularly with respect to potential dilution of those investors' positions. It is not possible to know in advance the investors for whom this information would be most useful, but the commenter is generally of the view that investors should be provided with clear disclosure and as much information as possible to help make an informed investment decision.</p>	We acknowledge the comments.
41	<i>No</i>	<p>Six commenters did not agree with separating out the basic and additional subscription privilege.</p> <p>One commenter noted that the key purpose is to get the company funded and any delay or complications will put the financing at risk. More information is always valuable but the risks outweigh the benefits. Even in possible control situations there should not be a split. The control issue would likely only be caused by insiders or guarantors taking up the additional subscription. If concern that an insider could become a control person, then the policy should make it a requirement to disclose in the circular as to their intent of exceeding 20%.</p>	We acknowledge the comments. We agree that the costs of separating out the basic and additional subscription privilege will outweigh the benefits.

No.	Subject	Summarized Comment	Response
		<p>One commenter noted they do not support the separation of the timing of the basic subscription and additional subscription privilege, such that an issuer would announce the results of the basic subscription before commencing the additional subscription privilege period. The additional step would significantly decrease the efficiency of the process, and will increase the time required to undertake a financing under the Proposed Exemption. Shareholders should be made aware of any potential for a change in control in the Notice and the Circular, so that they may base their decision to exercise their rights on that information. If the two-tier system is introduced, the additional subscription privilege should be outside of the 21 days, and the split timing for the basic and additional subscriptions should only be required in circumstances where there may be an impact on control.</p> <p>One commenter noted that if all shareholders participate in their rights pro rata to their existing stakes, there will be no net change of control. The commenter then assumes therefore that the relative participation in the basic subscription alone would have a larger impact on change of control than the (presumably) much smaller possible change as a result of any additional subscription on shares remaining post basic subscription. The decision to participate or not in the basic subscription is therefore a materially larger ‘informed decision’ than that in the additional subscription. The separation between basic and additional subscription results does not therefore in the commenter’s view offer any material advantage to shareholders. It would however prolong the closure of the Rights issue, and therefore delay capital delivery to the issuer. Additionally, any extended period between basic and additional subscription close introduces market price risk, which increases underwriting costs to the issuer. Informing shareholders of the results of additional subscriptions post close of the offering should be required to be in a timely manner (Close of offer + 2 days?).</p>	

No.	Subject	Summarized Comment	Response
		<p>One commenter believed that security holders should continue to exercise both the basic subscription and additional subscription privilege at the same time and that a two-step process is not necessary. The commenter did not think that concerns about the effect of the offering on control of the issuer are significant enough to warrant the additional cost and complication of a two-step process. If the timing of these two privileges is separated, the commenter believes that the additional subscription privilege should occur within the minimum period so that the two-step process does not extend the time required to complete a rights offering.</p> <p>In one commenter's view, to separate the timing of the basic and additional subscription privileges would unnecessarily complicate the offering process. The commenter believes that investors are sufficiently capable of understanding the potential impact of an additional subscription privilege on control, particularly given the disclosure regarding the number of securities to be issued in the offering and insider participation set out in proposed Form 45-106F15. However, in the commenter's view issuers should have the option (but not the obligation) to separate the timing of the basic and additional subscription privileges.</p>	
<b>Question 9b: The Proposed Exemption – Would security holders make a different investment decision through the additional subscription if the results of the basic subscription were announced?</b>			
42	<i>Yes</i>	Three commenters thought security holders might potentially make a different investment decision if the results of the basic subscription were announced.	We acknowledge the comments.
43	<i>No</i>	In one commenter's view, investors would likely not make a different investment decision if the results of the basic subscription were announced.	We acknowledge the comments.

No.	Subject	Summarized Comment	Response
44	<i>If yes, should the additional subscription privilege be inside or outside 21 days?</i>	<p>One commenter noted that the price of the underlying shares will in all probability react to the result of the basic subscription results. (Or indeed as a result of wholly exogenous market movements.) If the market rallies, then the value of subscription rights will increase and additional subscription become more attractive; or vice versa.</p> <ul style="list-style-type: none"> <li>• Additional subscription privilege should be along with, or at a very short time after the basic subscription</li> <li>• No split timing in the commenter’s view is required. (There is no such split results release timing for example in most of the European markets.).</li> </ul> <p>One commenter noted that they are not in a position to say how the investment decision would differ. The commenter thinks it would have to be outside of 21 days, unless significant security holders were given a shorter time period for exercising the basic subscription privilege. However, the commenter is not in favour of a requirement for split timing.</p>	We acknowledge the comments.
45	<i>If yes, should the split timing always be required or only required in circumstances where there may be an impact on control?</i>	<p>One commenter suggested additional time should be provided to exercise the additional subscription privilege. In order for the offerings to occur as quickly as possible, the split timing should only be required in circumstances where there may be an impact on control.</p> <p>One commenter thinks it should not be required, but that issuers should have the option to elect split timing.</p>	We acknowledge the comments.
<b>Question 9c: What are the costs and benefits of having a two-tranche system for security holders?</b>			
46		<p>One commenter noted that the benefits are outlined in the question and that the costs are additional complexity, financial cost and time required to complete a rights offering, which would likely result in fewer rights offerings being undertaken.</p> <p>One commenter noted the key purpose is to get the company funded</p>	We acknowledge the comments. We agree that the costs of a two-tranche system outweigh the benefits.

No.	Subject	Summarized Comment	Response
		<p>and any delay or complications will put the financing at risk. More information is always of value, but the risks outweigh the benefits.</p> <p>One commenter indicated that the costs of delay, increased risk and underwriting costs outweigh the “benefits” – which cannot be separated from market directional movements.</p> <p>In one commenter’s view, to separate the timing of the basic and additional subscription privileges would unnecessarily complicate the offering process. The commenter believes that investors are sufficiently capable of understanding the potential impact of an additional subscription privilege on control, particularly given the disclosure regarding the number of securities to be issued in the offering and insider participation set out in proposed Form 45-106F15. However, in the commenter’s view issuers should have the option (but not the obligation) to separate the timing of the basic and additional subscription privileges.</p>	
<p><b>Question 10a(i): Repeal of the Current Exemption for use by Non-Reporting Issuers – If we repeal the rights offering prospectus exemption for non-reporting issuers, would this create an obstacle to capital formation for non-reporting issuers?</b></p>			
47	<i>Yes</i>	<p>Two commenters believe that this will create an obstacle to capital formation for non-reporting issuers.</p> <p>One commenter believes that the Proposed Amendments should not restrict the availability of the rights offering prospectus exemption to reporting issuers. While the commenter agrees that securityholders of non-reporting issuers will not have access to the same continuous disclosure as would the case for reporting issuers, this is true for other exemptions as well, such as the accredited investor exemption. The commenter believes that many non-reporting issuers did not use the previous exemption because of its inefficiency. In this regard, the exemption following the Proposed Amendments would be an attractive capital raising method for small and medium sized non-</p>	<p>We thank the commenter for their input. However, we think that neither the current exemption nor the new exemption are appropriate for non-reporting issuers.</p>

No.	Subject	Summarized Comment	Response
		<p>reporting issuers, and increase the flexibility of the same issuers to access capital.</p> <p>In one commenter's view, the repeal of the Current Exemption for use by non-reporting issuers could create an obstacle to capital formation for non-reporting issuers. For that reason, the commenter would suggest that the rights offering exemption continue to be available for non-reporting issuers so long as the issuer provides the same level of disclosure about its business as is currently required by National Instrument 45-101.</p>	
48	<i>No</i>	<p>Two commenters did not think the repeal would create an obstacle to capital formation for non-reporting issuers.</p> <p>One commenter noted given the availability of other prospectus exemptions, they do not foresee any problems relating to capital formation for non-reporting issuers if the exemption were repealed for those entities.</p> <p>One commenter agrees that rights offerings are not ideally suited for non-reporting issuers, and that they have the ability to use other exemptions that are well suited, such as the offering memorandum or "private company" exemptions.</p>	We acknowledge the comments.
49	<i>Other</i>	<p>One commenter answered that the proposed regulations would in their view adequately replace the Current Exemption for non-reporting issuers, and if contractual liability is introduced offer increased protection to the investor in the Rights. Similarly for foreign issuers, if they are by contractual liability required to have the support of a local Canadian bank (who also take final liability) the problem would be one of establishing credit worthiness between the issuer and bank.</p>	We thank the commenter for their input. However, we have decided to proceed with statutory liability for secondary market disclosure.
<b>Question 10a(ii): Repeal of the Current Exemption for use by Non-Reporting Issuers – Do you foresee any other problems?</b>			

No.	Subject	Summarized Comment	Response
50	<i>No</i>	<p>Two commenters did not foresee any other problems regarding the repeal of the Current Exemption for use by Non-Reporting Issuers.</p> <p>One commenter acknowledged that the use of the Current Exemption by non-reporting issuers is very rare.</p>	We acknowledge the comments.
51	<i>Other</i>	<p>One commenter noted that in their experience most of the non-reporting issuers making use of the current rights offering prospectus exemption in Section 2.1 of NI 45-106 are foreign issuers, who rely on that exemption in tandem with the minimal connection to Canada exemption currently appearing in Section 10.1 of NI 45-101 (the requirements of which we refer to as the “Minimal Connection Test”). Subject to the commenter’s comments on proposed section 2.1.3 of NI 45-106, the commenter agrees that it will be helpful to consolidate the current exemptions in Section 2.1 of NI 45-106 and Section 10.1 of NI 45-101 into a single prospectus exemption. More generally, the commenter also agrees that it will be helpful to integrate the substantive requirements for rights offerings into the existing national instruments governing prospectus offerings and prospectus exempt offerings, rather than maintaining NI 45-101 as a separate instrument.</p>	<p>We acknowledge the comments.</p> <p>Refer to the responses below related to the Minimal Connection Exemption.</p>
<p><b>Question 10a(iii): Repeal of the Current Exemption for use by Non-Reporting Issuers – Would repealing the Current Exemption cause problems for foreign issuers that do not meet the Minimal Connection Exemption? If so, should we consider changes to the Minimal Connection Exemption? Please explain what changes would be appropriate and the basis for those changes.</b></p>			
52	<i>Yes</i>	<p>One commenter thinks the applicable figures in the Minimal Connection Exemption could be increased to 20% (in respect of the aggregate number of Canadian security holders) and 10% (in respect of security holders in any province or territory). The commenter thinks this would have limited or no impact on investor protection, and would increase the number of foreign rights offerings in which Canadians could participate.</p>	<p>We thank the commenter for their input. We have removed the local jurisdiction test. Issuers will be able to use the exemption so long as neither the number of beneficial holders of securities of the relevant class that are resident in Canada nor the number of securities beneficially held by security holders</p>



No.	Subject	Summarized Comment	Response
			<p>resident in Canada exceeds 10% of all security holders or securities, as the case may be.</p> <p>Issuers that exceed the 10% threshold may consider an application for exemptive relief. There may be limited circumstances where relief from this requirement may be appropriate.</p>
53	<i>No</i>	<p>Two commenters did not believe that repealing the Current Exemption would cause problems for foreign issuers that do not meet the Minimal Connection Exemption.</p> <p>One commenter noted they do not believe that changes to the Minimal Connection Exemption should be necessary. Foreign issuers should be treated the same as other non-reporting issuers in Canada, regardless of whether such issuers are public issuers in other jurisdictions. Canadian investors should be able to easily access current information about issuers relying on the rights offering exemption and it may be difficult for many investors to retrieve such information from filings made in a foreign jurisdiction, even if such information is available on-line.</p> <p>One commenter did not believe that repealing the Current Exemption for non-reporting issuers should cause material problems for foreign issuers because the commenter believes that those issuers are generally averse to complying with the requirements of the Current Exemption for practical reasons.</p>	We acknowledge the comments.
<p><b>Question 10b(i): Repeal of the Current Exemption for use by Non-Reporting Issuers – Do you think we should consider changes to the Current Exemption instead of repealing it? If so, what changes should we consider? If you think we should change the disclosure</b></p>			

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<b>requirements, please explain what disclosure would be more appropriate.</b>			
54	<i>Yes</i>	One commenter indicated that any changes they would suggest would be similar to the changes incorporated into the Proposed Exemption.	We thank the commenter for their input. However, we think that neither the 45-101 Exemption nor the Rights Offering Exemption are appropriate for non-reporting issuers.
55	<i>No</i>	One commenter supported the removal of the Current Exemption for all non-reporting issuers, including foreign non-reporting issuers that may be public issuers in another jurisdiction.	We acknowledge the comment.
<b>Question 10b(ii): Repeal of the Current Exemption for Use by Non-Reporting Issuers – Should non-reporting issuers be required to provide audited financial statements to their security holders with the rights offering circular if they use the exemption?</b>			
56	<i>No</i>	In one commenter’s view, the obligation to provide audited financial statements could unduly burden a non-reporting issuer.	We acknowledge the comment.
57	<i>Other</i>	One commenter’s view is that non-reporting issuers should not be permitted to use the Proposed Exemption.	We acknowledge the comment.
<b>Question 10c: Repeal of the Current Exemption for Use by Non-Reporting Issuers – Are there other circumstances in which non-reporting issuers need to rely on the Current Exemption? If so, describe.</b>			
58	<i>Yes</i>	In one commenter’s view, the Current Exemption may not <i>[sic]</i> be a more effective and efficient means of raising capital than the other prospectus exemptions cited and therefore they would recommend that the Current Exemption continue to be available to non-reporting issuers and their security holders (all of whom would have acquired their securities of the issuer on a basis that presumes a different level of disclosure but also a different level of familiarity with the issuer and its affairs.	We thank the commenter for their input. However, we continue to believe that neither the current exemption nor the new exemption are appropriate for non-reporting issuers.
59	<i>No</i>	Two commenters did not think there were other circumstances in	We acknowledge the comment.

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		which non-reporting issuers need to rely on the Current Exemption.	
<b>Question 11a: The Stand-by Exemption – Should stand-by guarantors be subject to different resale restrictions depending on whether or not they are security holders of the issuer on the date of the notice?</b>			
60	<i>Yes</i>	<p>One commenter noted that if the stand-by guarantor has a board seat due to their stake size, or is otherwise privy to internal information not available to external minority shareholders then the commenter’s opinion is there should be additional caveats on their stake. This should equally apply to both existing shareholders and new shareholders if their stake would enable them to seek board representation. If there is no potential insider status then the commenter’s view would be not to impose a requirement for a resale restriction.</p>	<p>We thank the commenter for their input. However, we have decided that stand-by guarantors should not be subject to different resale restrictions depending on whether or not they are existing security holders.</p>
61	<i>No</i>	<p>Five commenters did not think standby guarantors should be subject to different resale restrictions depending on whether or not they are existing security holders.</p> <p>One commenter did not think a four month hold is necessary for guarantors or new shareholders. The success of most financings by Rights is because you have a guarantor. Any restrictions will limit their willingness to act. If they are not needed to exercise the guarantee, all the shares are free-trading so the market is not prejudiced because they needed to exercise the stand by commitment and received free trading shares.</p> <p>One commenter noted that imposing a hold period on such guarantors will reduce the number of individuals or entities willing to undertake this role, which will negatively affect the ability of issuers to raise capital under the Proposed Exemption. Imposing a hold period would seriously restrict the flexibility of guarantors to deal with such securities, and would put them at a disadvantage to shareholders who purchase pursuant to the offering for which they are providing a</p>	<p>We acknowledge the comments. We have decided that stand-by guarantors should not be subject to different resale restrictions depending on whether or not they are existing security holders.</p>

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		<p>guarantee. In the case of banks and other financial institutions, due to their internal risk policies and capital requirements, the commenter expects that imposing a hold period will effectively bar them from acting as guarantors.</p> <p>One commenter does not believe that any securities distributed by a reporting issuer through a rights offering should be subject to a hold period, whether or not a stand-by guarantor is an existing security holder. The commenter thinks it will be confusing to the market to have different resale restrictions on securities distributed as part of the same rights offering. Engaging a stand-by guarantor results in additional costs for the issuer, and this cost may increase if the securities the stand-by guarantor receives are subject to a hold period. As stand-by guarantors reduce uncertainty for issuers regarding whether a rights offering will be successful, the commenter believes that the use of stand-by guarantors should be encouraged. Therefore, the commenter does not believe that stand-by guarantors should be treated differently from other security holders with respect to resale restrictions.</p> <p>One commenter thought that stand-by guarantors should be permitted to receive free-trading securities irrespective of whether they are security holders on the date of the notice. The commenters think that imposing a hold period on securities purchased by a stand-by guarantor would impose unnecessary complexity and cause possible confusion and would be a potential cost to any would-be guarantor, without any corresponding benefit. The commenter therefore thinks that such a rule would make issuers less inclined to undertake a rights offering.</p> <p>In one commenter's view, standby guarantors often play an important role in a rights offering by providing the issuer with the assurance that a minimum amount of capital will be raised in the offering. This</p>	

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		<p>enables the issuer to properly assess the pros and cons of pursuing the financing, including the estimated costs of the financing relative to other capital raising alternatives. For that reason, the commenter does not believe that a standby guarantor that is not an existing security holder should be subject to different re-sale restrictions than those imposed on an existing security holder. To the extent that the standby guarantor will acquire a control position in the issuer, the restrictions on control block distributions and applicable stock exchange rules should be sufficient to regulate that type of distribution. Further, the issuer is free to negotiate the terms of any standby arrangement, including appropriate standstill provisions where warranted.</p> <p>In the commenter's view, distributions of securities acquired under the proposed Standby Exemption should be subject to the same seasoning period applicable to a standby guarantor that is an existing security holder (subject to the existing restrictions on control block distributions).</p> <p>The commenter believes that drawing a distinction between existing and non-existing security holders in these circumstances could prejudice issuers' ability to attract standby guarantors and therefore to complete what would otherwise be an efficient capital raising exercise in which all affected security holders are entitled to participate on a <i>pro rata</i> basis.</p>	
<b>Question 11b: The Stand-by Exemption – What challenges would there be for issuers trying to find a stand-by guarantor that is not already a security holder?</b>			
62		<p>One commenter noted the success of most financings by Rights is because you have a guarantor. Any restrictions will limit their willingness to act.</p> <p>One commenter noted this will depend upon the time sensitivity of the need for the capital being raised and available information on the</p>	We acknowledge the comments.

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		<p>company (analyst coverage etc.) If a very tight time requirement on a poorly followed stock it could be very difficult indeed to both find and educate a potential guarantor.</p> <p>One commenter thinks that the restrictions on acting as a stand-by guarantor should be as few as possible, in order to encourage issuers to undertake rights offerings.</p>	
<b>Question 12a: The Stand-by Exemption – If the standby guarantor is an existing security holder, should we require a four month hold?</b>			
63	<i>Yes</i>	<p>One commenter believed that all stand-by guarantors, regardless of whether or not they are security holders of the issuer on the date of the notice, should be subject to a four-month hold period, in order to avoid significant shareholders taking advantage of price discrepancies on a short term basis or otherwise hedge their position such that they have no economic interest in the issuer. Some investors in the rights offering may choose to exercise their rights on the basis of the subscription by the stand-by guarantor and thus such persons, whether they are insiders, management or other significant shareholders, should be required to hold the securities for a minimum length of time.</p>	<p>We thank the commenter for their input. However, we have decided that standby guarantors generally should not be subject to a four-month hold.</p>
64	<i>No</i>	<p>Six commenters did not think there should be a four month hold on any standby guarantors.</p> <p>One commenter noted no four month hold for any guarantor including broker firms. The fact that a fee is paid is not relevant to this process. At most the fee could be subject to a hold period if paid in securities. However, no restrictions is the commenter's preference. If a four month hold is imposed, the cost of the guarantor/stand by commitment will increase significantly.</p> <p>One commenter thought that stand-by guarantors should be permitted to receive free-trading securities irrespective of whether they are security holders on the date of the notice. The commenters think that</p>	<p>We acknowledge the comments.</p>

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		<p>imposing a hold period on securities purchased by a stand-by guarantor would impose unnecessary complexity and cause possible confusion and would be a potential cost to any would-be guarantor, without any corresponding benefit. The commenter therefore thinks that such a rule would make issuers less inclined to undertake a rights offering.</p> <p>One commenter believes that the considered imposition of a restricted period on resale of securities of an issuer by the “stand-by guarantor” whom acquires securities under the proposed “stand-by exemption” is unnecessary.</p> <ul style="list-style-type: none"> <li>-The market participants are already exposed to the securities that are acquired through the subscription privilege, and if the full subscription privilege is met, such number of securities would enter the market with a seasoning period.</li> <li>-If such stand-by guarantor is typically a “strategic investor” as CSA suggests, then this investor would most likely hold the securities for a period of time, thus reducing the exposure, and subsequent liabilities, of such securities to the secondary market.</li> <li>-The protections afforded to investors through civil liability for continuous disclosure should be balanced against the need for flexibility from the acquirer of securities under the proposed stand-by exemption.</li> </ul>	
65	<i>Other</i>	<p>One commenter suggested that a four month hold should only be required if the stake size confers any additional rights such as board representation or insider status.</p>	<p>We thank the commenter for their input. However, we have decided that standby guarantors generally should not be subject to a four-month hold.</p>
<p><b>Question 12b: The Stand-by Exemption – Should a stand-by guarantor that receives a fee and is a current security holder be subject to a restricted period on resale when other security holders are not subject to the restricted period?</b></p>			

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66	<i>No</i>	<p>Two commenters did not think stand-by guarantors should be subject to a restricted period on resale.</p> <p>Two commenters stated that no restricted period on resale should be required for guarantors, regardless of whether they are paid a fee, when other security holders are not subject to a restricted period.</p> <p>One commenter noted the fact that a fee is paid is not relevant to this process. At most the fee could be subject to a hold period if paid in securities. However, no restrictions is the commenter's preference. If a four month hold is imposed, the cost of the guarantor/stand by commitment will increase significantly.</p> <p>One commenter indicated that the payment of a fee for being a guarantor should not influence the resale restrictions, only if there was an impact of any purchase commitment on access to internal information.</p> <p>One commenter was of the view that the payment of a fee should not impact the hold period requirement.</p>	<p>We acknowledge the comments.</p> <p>We have added guidance to the Companion Policy to NI 45-106 which clarifies that if a registered dealer acquires a security as part of a stand-by commitment, the dealer may use the exemption in section 2.1.1 of NI 45-106 (and have only a seasoning period on resale) unless the dealer (a) is acting as an underwriter with respect to the distribution, and (b) acquires the security with a view to distribution. In those situations, the dealer should acquire the security under the exemption in section 2.33 of NI 45-106 as per the guidance in section 1.7 of the Companion Policy to NI 45-106.</p>
<b>Question 12c: The Stand-by Exemption – What challenges to do you foresee if we require a four-month hold?</b>			
67		<p>One commenter noted that if a four month hold is imposed, the cost of the guarantor/stand by commitment will increase significantly.</p> <p>One commenter noted imposing a four month hold period will increase costs and decrease the likelihood of issuers finding a guarantor for the offering.</p> <p>One commenter noted the challenge to both regulate and police that the guarantor does not use any other means to effect a sale prior to the expiry of the hold period – e.g. by purchasing puts or other OTC</p>	<p>We acknowledge the comments.</p>



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		<p>transactions.</p> <p>One commenter thinks it would be an impediment to attracting a stand-by guarantor, and that it would not have any corresponding benefit to issuers or existing security holders.</p>	
<b>Question 13: The Minimal Connection Exemption – Do you anticipate challenges if we require that materials for the Minimal Connection Exemption be filed on SEDAR?</b>			
68	<i>No</i>	<p>Seven commenters did not anticipate challenges if we require the materials for the Minimal Connection Exemption to be filed on SEDAR.</p> <p>One commenter noted that issuers relying on the Minimal Connection Exemption should be able to access SEDAR themselves or through a local agent at low cost.</p> <p>One commenter suggested that filing on SEDAR for equal dissemination to all stakeholders should be mandatory.</p> <p>One commenter noted that they do not believe that requirement would be problematic, so long as the issuer (through its counsel) would be able to create the necessary SEDAR profile and obtain the necessary filing codes with only minimal incremental cost and delay relative to the current paper filing requirement. The commenter recommends that if SEDAR filing of rights offering materials is required as a condition of the Minimal Connection Exemption, that a simplified and expedited procedure be developed so that this information can be submitted electronically by the issuer or its counsel without imposing any undue administrative or financial burden on the issuer or resulting in any procedural delay.</p> <p>One commenter would not anticipate material challenges should the regulators require the filing of rights offering materials with the</p>	<p>We acknowledge the comments. We will require that issuers file materials for the Minimal Connection Exemption on SEDAR.</p>

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		regulator through SEDAR, which the commenter expects would occur through law firms and commercial printers.	
69	<i>Other</i>	<p>One commenter noted that in their firm’s cross-border securities law practice, they often represent companies across the globe that are conducting rights offerings. Typically, these companies are seeking to allow the broadest possible participation of their beneficial shareholders on a worldwide basis. These companies want to let all of their investors have equal access to participation in the rights offering, and provide all investors with the opportunity to avoid the dilution of their interests that would occur if they do not participate. Even though Canada may be a more prominent and significant nation than most others, it is only one of more than 190 countries around the world whose securities laws must be complied with, and the costs of compliance (both in terms of legal fees and administrative requirements) quickly become very significant.</p> <p>As part of the current reform of the rights offering regime in Canada, the commenter strongly urges the CSA to abandon the current Minimal Connection Test and replace it with a test that is simpler and less expensive to administer.</p> <p>Under the current Minimal Connection Test, an issuer must make “reasonable inquiry” to determine: (i) whether the number of beneficial holders in any single province of Canada exceeds 5% of its worldwide total, or more than 10% in all of Canada in the aggregate; and (ii) whether the number of securities held by beneficial holders in any single province of Canada exceeds 5% of the worldwide total, or the number held by beneficial holders in all of Canada in the aggregate exceeds more than 10% of the worldwide total. An officer or other representative of the issuer must provide a certificate attesting that reasonable inquiry has been made and confirming that the tests are met. Currently, the Companion Policy to NI 45-101 states that in</p>	<p>We thank the commenter for their input. Please refer to the above response related to the Minimal Connection Exemption.</p> <p>We have included guidance on situations where the issuer may rely on its most recently conducted beneficial ownership search procedures conducted for the purpose of distributing proxy material for a shareholders meeting or unless the issuer has reason to believe that the issuer would no longer meet the applicable test.</p> <p>The requirement in the Minimal Connection Exemption is that all materials sent to any other security holders for the rights offering must be concurrently filed and sent to each security holder of the issuer resident in the local jurisdiction. We think that it is appropriate for all Canadian security holders to receive the rights offering materials in the same way they would typically receive materials from the issuer rather than permit the issuer to use a new delivery method that security</p>

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		<p>order to make “reasonable inquiry”, the issuer should follow “...procedures comparable to those found in National Policy 41 – Shareholder Communication, or any successor instrument...” (the successor instrument now being NI 54-101). Even if the securities laws of the issuer’s home country embodied procedures comparable to NI 54-101 that could be used in the context of a rights offering (rather than only for proxy-related materials as in Canada), in the commenter’s experience most issuers neither have the time nor are willing to bear the significant expense of conducting a global search of their depositories and depository participants in order to confirm that the Minimal Connection Test is satisfied, and provide a certificate to that effect.</p> <p>The commenter proposes, at a minimum, that the Minimal Connection Test should allow a foreign issuer that is not a reporting issuer in Canada to presume that it meets the 5% and 10% Canadian holders and securities held tests in the absence of actual knowledge to the contrary, based on its most recently conducted beneficial ownership search procedures conducted for the purpose of distributing proxy material for a shareholders meeting (or, if it is not required to conduct such procedures under the laws of its home country, then based on the best and most current information otherwise available to it). Further, the commenter would propose that the test be simplified to eliminate the 5% prong of the test based on the percentage of shares held and shareholders in a particular province. The relevant test for the exemption should in the commenter’s view be based on the issuer’s overall connection to Canada, and not any one particular province (where a single large institutional investor may have a position in excess of 5% of number of shares outstanding).</p> <p>The commenter also noted the requirement to deliver materials “sent to any other security holder” to “each security holder” in Canada is becoming more problematic as many countries allow delivery of</p>	<p>holders may not be familiar with or have consented to.</p>

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		<p>information about a rights offering through website postings or other electronic means, making it burdensome to ensure that all registered Canadian shareholders (or worse, beneficial shareholders if that is the intended requirement), physically receive copies of materials that may have been sent to a small handful of very significant shareholders outside of Canada (with the vast majority of other non-Canadian shareholders receiving their information through electronic access). The commenter believes it would be appropriate to eliminate this requirement as a condition of the proposed exemption in Section 2.1.3 of NI 45-106, especially if a requirement to file materials on SEDAR is adopted. If thought necessary or desirable, the condition in proposed Section 2.1.3 of NI 45-106 might be replaced with a requirement that the issuer communicate information about the rights offering to security holders in Canada in the same or a similar manner that such information is provided to public shareholders generally in other countries.</p>	
<b>Other comments related to proposed NI 45-106</b>			
70	<b><i>Minimum hold period for existing security holders before being eligible to participate in a rights offering</i></b>	<p>One commenter noted that ideally, investors should be required to hold securities of an issuer for a minimum of one calendar quarter prior to achieving eligibility to participate in a rights offering, such that they would have the opportunity to experience the volatility of the security's price on the exchange and the issuer's track record prior to making a subsequent investment, but the commenter recognizes that such a requirement might be difficult for an issuer to administer and would lead to dilution for some shareholders.</p>	<p>We thank the commenter for their input; however, we think that all Canadian security holders should be able to participate in rights offerings, regardless of when they acquired the securities.</p>
71	<b><i>Offer to all security holders</i></b>	<p>Relating to requiring the offer to all security holders, one commenter commented that as currently drafted, section 2.1.1(3)(e) of the proposed amendments to NI 45-106 requires the issuer to make the "...basic subscription privilege available on a pro rata basis to each security holder of the class of securities to be distributed on the exercise of the rights". The commenter notes that most Canadian</p>	<p>We have clarified that the requirement is to make the basic subscription privilege available to each security holder in Canada.</p>

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		<p>public companies will have registered or beneficial owners of their securities who are located or resident in countries other than Canada, and the securities laws of those countries may prohibit either the distribution of rights to holders in that country, or the exercise of the rights by holders in that country, or both. Even if legally permissible, distributing or permitting the exercise of rights by holders in another country may subject the issuer to prospectus or registration requirements in that other country, or make it subject to ongoing continuous disclosure or reporting obligations in that jurisdiction, or impose onerous requirements in order to satisfy the conditions of exemptions from those requirements. The commenter strongly urges that the requirement to make the basic subscription privilege available to each security holder be limited only to registered and/or beneficial security holders in <i>a jurisdiction of Canada</i>.</p> <p>One commenter noted that despite references to making the offering or sending the notice to security holders <i>in the local jurisdiction</i> [on page 4 of the CSA Notice under section <i>Offer to all security holders</i> and in proposed section 3.10(1) of the Companion Policy to NI 45-106], there is nothing in the actual proposed rule amendments to NI 45-106 itself that clarifies that the rights offering is only required to be extended to security holders in the local jurisdiction. In fact, the use of the term “all holders” or “each holder” without any further qualification in various sections of the Proposed Amendments to NI 45-106 would imply the contrary (see sections 2.3.1(3)(e) and 2.3.1(6)(a)).</p> <p>Based on the commenter’s experience with the existing exemption, issuers can face substantial difficulty in extending a rights offering to jurisdictions outside of Canada where the legal or regulatory environment either restricts or makes it very challenging (including where it imposes other requirements, increases costs, etc.) to extend the offering, disseminate materials or comply with other elements of</p>	

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		<p>the exemption. The commenter would therefore suggest that the proposed amendments should make it clear in NI 45-106 itself that the offering is required to be extended only to security holders in the local jurisdiction. If the intention is otherwise, the commenter submits that the Proposed Amendments should provide for an exemption or carve-out where the laws or regulations of the jurisdiction of a security holder prevent or restrict the issuer from extending the rights offering exemption or otherwise impose any substantial impediments to complying with any aspect of the exemption.</p>	
72	<i>Translation</i>	<p>Two commenters think there should be a de minimis exemption from the requirement to translate materials in French.</p> <p>With respect to the requirement in section 2.1.3(f), one commenter believes there should be a de minimis exemption from the requirement to offer rights to holders of securities in Quebec and/or to translate the notice and circular in French, as the added cost and time would not be justified absent a sufficient security holder base in Quebec.</p> <p>One commenter noted in proposed 2.1.1(3)(f) that an issuer that wishes to use the Proposed Exemption will need to translate the Notice and Circular if it has any security holders in Quebec. In the commenter's view, the cost and timing of such translation would be a disincentive to conducting rights offerings for smaller to mid-sized issuers that have security holders in Quebec. Further, in light of the fact that the Circular does not disclose the issuer's business, but rather relies on the continuous disclosure record (which most issuers do not translate), the commenter does not see a strong policy rationale for requiring that the Notice and Circular be translated. In other words, those Quebec resident security holders that do not read English will likely not have a full grasp of the issuer's business, and requiring that the Notice and Circular be translated would not remedy that fact.</p>	<p>We thank the commenters for their input. In cases where an issuer has a minimal number of security holders in Québec or its Québec shareholders hold a minimal number of securities, the Autorité des marchés financiers will consider granting relief on a case by case basis.</p>

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		<p>The commenter thinks that, in order to increase the frequency and success of rights offerings, there should not be any translation requirement. In the alternative, any requirement to translate should be limited to issuers that have a significant security holder base in Quebec. For example, if less than 10% of the outstanding securities are held by Quebec residents and less than 10% of the security holders are Quebec residents, then there should be no requirement to translate.</p>	
73	<p><b><i>Accredited investor exemption used in connection with a rights offering by a foreign issuer</i></b></p>	<p>One commenter asks that the CSA consider making a modification to the way in which the “accredited investor” exemption may be used in connection with a rights offering by a foreign issuer. Currently, the distribution of rights to holders in Canada constitutes a “trade” in securities that is a distribution, requiring the use of a prospectus or a prospectus exemption (as evidenced by the existing exemption in section 2.1 of NI 45-106, which would otherwise be unnecessary). The exercise of the right, however, is fully exempt from the prospectus requirement pursuant to section 2.42(1) of NI 45-106, without any conditions, restrictions or additional requirements of any kind. In other words, unlike virtually all of the more than 190 other countries around the world, Canadian securities laws impose the substantive requirements regulating rights offerings on the distribution of the right itself, rather than imposing those requirements at the time of the exercise of the right. In consequence, under the current regime, a foreign issuer seeking to use the “accredited investor” exemption must take measures to ensure that a shareholder is an accredited investor before it receives any rights, rather than only ensuring that persons exercising rights are accredited investors at the time of exercise. Further, the foreign issuer must report distributions of the <i>rights</i> under the accredited investor exemption, filing Form 45-106F1 to report distributions of rights rather than the distribution of shares which occurs on the exercise of the rights. In jurisdictions where the trade report fee is based on the value of the securities distributed, this results in the issuer’s payment being based on the nil sale price of the rights,</p>	<p>We thank the commenter for their input; however, the amendments that the commenter proposes are outside the scope of the current project. We may consider this issue on a future policy project.</p>

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		<p>rather than exercise (purchase) price of the underlying shares.</p> <p>To resolve this anomaly and simplify compliance with the “accredited investor” exemption in connection with a rights offering in circumstances where the Minimal Connection Exemption is not or cannot be used, the commenter proposes that the CSA consider the following as an additional, new exemption to be added to NI 45-106:</p> <p><i>Foreign issuer rights offering to accredited investors</i></p> <p>2.x (1) The prospectus requirement does not apply to a distribution of a right granted by the issuer to purchase a security of its own issue to a security holder of the issuer, provided that all of the following conditions are satisfied:</p> <p>(a) the issuer is not incorporated or organized under the laws of Canada or any province or territory of Canada;</p> <p>(b) the issuer is not a reporting issuer in any jurisdiction of Canada;</p> <p>(c) no person or company in Canada who acquires a right pursuant to this section 2.x(1) is permitted to exercise that right unless that person or company is an accredited investor; and</p> <p>(d) any distribution of securities pursuant to the exercise of a right acquired by the holder thereof pursuant to this section 2.x(1) is made pursuant to and in accordance with the prospectus exemption afforded by Section 2.3.</p> <p>(2) The exemption afforded by section 2.42(1) does not apply to the distribution of a security in accordance with the terms and conditions a security previously issued in reliance upon</p>	



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		subsection (1).	
74	<b><i>Resale restrictions relating to rights offerings by foreign issuers that are not reporting issuers in Canada</i></b>	<p>One commenter believes that rights offerings by foreign issuers that are not reporting issuers in Canada should be treated as a special case in terms of resale restrictions, as imposing resale restrictions in connection with either the rights themselves or the underlying shares may result in significant prejudice to Canadian shareholders relative to the issuer's investors in other countries.</p> <p>If the rights are transferable (and especially if they have a liquid trading market outside of Canada, as is often the case), investors in other countries will be entitled to elect whether to sell their rights or exercise them. In either case, the right will constitute a valuable benefit to them. Canadian shareholders should be entitled to share in the receipt of this value.</p> <p>Imposing any hold period or seasoning period on such right effectively precludes a shareholder from realizing economic value by selling the right. Individual shareholders will not be in a position to obtain legal advice regarding whether such a resale may be made in compliance with the securities laws of their own province or territory, and will not have access to the information necessary to determine whether or not the exemption afforded by section 2.14 of NI 45-102 is available in the circumstances.</p> <p>In consequence, Canadian shareholders will be deprived of the ability to derive value from the rights they are entitled to, offsetting the dilution they may experience as a result of the rights offering, unless they exercise the right – that is, the resale restriction applicable to the right could effectively force Canadian shareholders to make a further</p>	We thank the commenter for their input; however, the amendments that the commenter proposes are outside the scope of the current project. We may consider this issue on a future policy project.

No.	Subject	Summarized Comment	Response
		<p>investment in the issuer that they do not wish to make.</p> <p>The commenter also notes that any shares issued on the exercise of rights will be subject to a permanent hold period – whether the original shares to which the rights relate are also subject to a permanent hold period (having been acquired under a prospectus exemption), or whether the original shares to which the rights relate were purchased through open market purchases and not subject to any resale restrictions. The commenter believes this is an anomalous and unfortunate result, and that shares obtained in a rights offering should not be subject to any more onerous restrictions on resale than the shares upon which the rights were distributed.</p> <p>The commenter proposes the following as an additional provision of NI 45-102:</p> <p style="text-align: center;"><i>First Trades in Foreign Rights Offering Securities</i></p> <p>2.15 (1) The prospectus requirement does not apply to a first trade of a right granted by the issuer to purchase a security of its own issue to a security holder of the issuer, provided that all of the following conditions are satisfied:</p> <ul style="list-style-type: none"> <li>(a) the issuer is not incorporated or organized under the laws of Canada or any province or territory of Canada;</li> <li>(b) the issuer was not a reporting issuer in any jurisdiction of Canada at the distribution date or is not a reporting issuer in any jurisdiction of Canada at the date of the first trade; and</li> <li>(c) the trade is made through an exchange, or a market, outside of Canada, or to a person or company outside</li> </ul>	

No.	Subject	Summarized Comment	Response
		<p>of Canada.</p> <p>(2) The prospectus requirement does not apply to a first trade of a security issued by an issuer pursuant to the exercise of a right that was granted by the issuer to purchase a security of its own issue to a security holder of the issuer, provided that all of the following conditions are satisfied:</p> <p>(a) the issuer is not incorporated or organized under the laws of Canada or any province or territory of Canada;</p> <p>(b) the issuer was not a reporting issuer in any jurisdiction of Canada at the distribution date or is not a reporting issuer in any jurisdiction of Canada at the date of the first trade;</p> <p>(c) the trade is made through an exchange, or a market, outside of Canada, or to a person or company outside of Canada; and</p> <p>(d) if the security held by the security holder of the issuer in respect of which the right was granted was acquired by the security holder pursuant to a prospectus exemption to which section 2.5 applies, at least four months have elapsed since the date the security holder first acquired the security in respect of which the right was granted.</p>	
75	<i>Drafting comments</i>	One commenter noted in Annex A1 to the Notice, in 2.1.1(6)(b)(ii), at the end of the definition of "x", it would add clarity to include the words " <i>after giving effect to the basic subscription privilege</i> ". The commenter acknowledges that the wording of this proposed section is	We have made the suggested change.

No.	Subject	Summarized Comment	Response
		the same as the applicable wording in the Current Exemption.	
<b>Other comments related to proposed Companion Policy CP 45-106</b>			
76	<i>Drafting comments</i>	One commenter noted in the Proposed Changes to Companion Policy CP 45-106, in section 3.10(4) it appears that the reference to paragraph 2.1.1(16)(b) should in fact be to paragraph 2.1.1(17)(a).	We have made the suggested change.
<b>Other comments related to proposed Form 45-106F14</b>			
77	<i>Additional information to be included in the Notice</i>	One commenter recommends the CSA consider requiring the issuer to confirm in the Notice that it has sufficient authorized shares to fulfill the subscription rights or require that it obtain shareholder approval to amend its articles prior to commencement of the rights offering.	We acknowledge the comment. We have revised question 15 in the Rights Offering Circular to state: "What are the significant attributes of the rights issued under the rights offering and the securities to be issued on the exercise of the rights?"
<b>Other comments related to proposed Form 45-106F15</b>			
78	<i>Consistency with other forms</i>	<p>One commenter noted that in Part 4 of the proposed Form 45-106F15, it should be made clear that the obligation to provide information on insiders and 10% security holders is "if known to the issuer after reasonable enquiry", which would be consistent with Item 12 of the existing Form 45-101F1.</p> <p>One commenter noted it is unclear as to why the proposed Circular contains a certificate that is required to be signed by directors and officers. The commenter understands that this requirement makes sense for an offering memorandum and other offering documents such as take-over bid circulars, because the statutory liability provisions applicable to those documents (see sections 132.1 and 132 of the <i>Securities Act</i> (British Columbia), respectively) impose liability specifically on persons who signed the certificate. In this context, however, the proposed standard of liability (being secondary market</p>	<p>We acknowledge the comment. We have made the suggested change to Part 4 of proposed Form 45-106F15.</p> <p>We acknowledge the comment regarding the certificate requirement. We have removed the certificate requirement and have instead included guidance reminding issuers and their executives that they will be liable for the disclosure in the Rights Offering Circular.</p>

No.	Subject	Summarized Comment	Response
		liability) does not contemplate a certificate signed by particular directors and officers, and accordingly does not impose any specific liability on the signatories.	
<b>Comments not related to a particular Instrument or Form</b>			
79	<i>Timing of adoption</i>	One commenter noted that it was stated that the exemption could be in place by the end of 2015. The commenter respectfully suggests that by that time many of the junior companies will have ceased to function. The commenter urges the British Columbia Securities Commission to move to adopt and implement the changes as soon as possible and also assist other Securities Commissions across Canada to do the same. The commenter also notes that the Ontario Securities Commission (OSC) adopted the capital raising prospectus exemption earlier this month. A timely adoption of the proposed changes by Ontario will assist the implementation of changes to the rights offering regime. In this regard, the commenter will work with their associates at the Prospectors & Developers Association of Canada to encourage them to indicate their support to the OSC.	We thank the commenter for their input. We have worked to adopt these amendments as quickly as possible through the CSA processes.
80	<i>Compensation to shareholders</i>	One commenter recommends that the CSA consider following the Hong Kong and UK rights offering process which requires issuers to reimburse non-exercising shareholders from the proceeds due to purchased new shares. Shares arising from the rights are sold for the benefit of those shareholders who did not take up their entitlements, after the subscription period, so that any premium realized over and above the offer price and placing expenses is paid to those non-exercising shareholders.	We thank the commenter for their input. The change that the commenter suggests is outside the scope of the current project.
81	<i>Shareholder Approval</i>	One commenter recommends that shareholder approval should be required in the event that the amount of dilution goes beyond a certain threshold. A dilutive share issuance that materially affects the control of an issuer should require shareholder approval by a 2/3rd majority.	We thank the commenters for their input. The dilution limit on the exemption is 100%. If dilution exceeds 100%, the issuer will not be

No.	Subject	Summarized Comment	Response
		Significant changes in an issuer should be subject to shareholder approval.	able to use the exemption and will have to use a prospectus to issue rights. We think this regime is appropriate to deal with the issues the commenter raises. We also note that corporate entities should also consider their obligations under corporate law.
82	<i>Re-election of the Board</i>	One commenter also recommends that the CSA should consider requiring the full board to stand for re-election at the next annual general meeting (should they not already be required to do so) if the monetary proceeds of the rights offering exceed a certain level of the issuer's pre-issue market capitalization or if the amount of dilution exceeds a certain level (for example, 1/3). This would enhance good governance.	We thank the commenter for their input. The change the commenter suggests is outside the scope of this project.
83	<i>Comments on the venture market in general</i>	<p>One commenter noted that these changes will not be the solution to the current situation facing the Venture Markets.</p> <p>The commenter states that IIROC has been very successful at eliminating the transaction business by implementing the CRM, now being followed up by the CRM2. Since November 27, 2014, 8 more members of IIROC have resigned.</p> <p>Vancouver was the home to over 40 independent firms with about 7 remaining. There is no viable means of reaching the retail investor in Canada with the demise of these firms. Too much liability combined with the costs have made it impossible for firms to prosper, their demise harbours the demise of the Venture Market as we know it.</p> <p>“Protect the public” is the battle cry of the regulators, the CSA appears to have finally realized that there is a crisis, maybe the message should</p>	We thank the commenters for their input. The issues that the commenter raises are outside the scope of this project.

No.	Subject	Summarized Comment	Response
		<p>be passed onto IIROC. Every investment comes with associated risk, venture investments come with higher risk but also the potential for higher returns. The returns to the Canadian economy are the creation of jobs, companies and wealth. New listings on the TSX are predominantly ETF's and proprietary products created by large institutions that protect the public through diversification by packaging corporate shares into a variety of baskets. If diversification reduces risk then the consolidation of the Canadian financial markets, ultimately ending up under the control of the "Big Six " banks and a few other large institutions like Manulife is a threat to health of the Canadian Public. What is the CSA and IIROC doing to protect us?</p> <p>Equities age, merge and many cases ultimately die. The Venture Market acts as an imperfect incubator producing failures and successes but all producing the jobs that train future geologists, engineers, accountants, lawyers, etc. Can a resource based country of 35 million people prosper if risk capital cannot be raised? Why would a foreign institution or investor want to invest into the Canadian equities that our own citizens are restricted from buying?</p> <p>Our Venture Market is unique to Canada and needs to be nurtured. Our economy is resource based, that in itself is very risky, held hostage by the cyclical nature of commodity prices. This 5 year bear market that the Venture Market is experiencing has been amplified by the contribution of each regulatory body overseeing the public markets. Just opening an account with a broker has become a major exercise in paper work, justified by concerns about money laundering, suitability, risk tolerance and transparency.</p> <p>The Canadian Public that wants to speculate or gamble has been driven to the casinos and lotteries where you can just walk into an outlet and risk your money.</p>	

**Annex D1**

**THE MANITOBA SECURITIES COMMISSION**  
**MSC Rule No. 2015-25**  
(Section 149.1, *The Securities Act*)

**AMENDMENTS TO**  
**NATIONAL INSTRUMENT 45-106**  
***PROSPECTUS EXEMPTIONS***

1. *National Instrument 45-106 Prospectus Exemptions is amended by this Instrument.*

2. *Section 2.1 is replaced with the following:*

**Rights offering – reporting issuer**

**Refer to Appendix E of National Instrument 45-102 *Resale of Securities*. First trades are subject to a seasoning period on resale.**

**2.1(1)** In this section and sections 2.1.1, 2.1.2, 2.1.3 and 2.1.4,

**"additional subscription privilege"** means a privilege, granted to a holder of a right, to subscribe for a security not subscribed for by any holder under a basic subscription privilege;

**"basic subscription privilege"** means a privilege to subscribe for the number or amount of securities set out in a rights certificate held by the holder of the rights certificate;

**"closing date"** means the date of completion of the distribution of the securities issued upon exercise of the rights issued under this section;

**"listing representation"** means a representation that a security will be listed or quoted, or that an application has been or will be made to list or quote the security, either on an exchange or on a quotation and trade reporting system, in a foreign jurisdiction;

**"listing representation prohibition"** means the provisions of securities legislation set out in Appendix C;

**"managing dealer"** means a person that has entered into an agreement with an issuer under which the person has agreed to organize and participate in the solicitation of the exercise of the rights issued by the issuer;

**"market price"** means, for securities of a class for which there is a published market,

(a) except as provided in paragraph (b),

(i) if the published market provides a closing price, the simple average of the closing price of securities of that class on the published market for each of the trading days on which there was a closing price falling not more than 20 trading days immediately before the day as of which the market price is being determined, or

(ii) if the published market does not provide a closing price, but provides only the highest and lowest prices of securities of the class traded, the average of the simple averages of the highest and lowest prices of securities of the class on the published market for each of the trading days on which there



were highest and lowest prices falling not more than 20 trading days immediately before the day as of which the market price is being determined, or

(b) if trading of securities of the class on the published market has occurred on fewer than 10 of the immediately preceding 20 trading days, the average of the following amounts established for each of the 20 trading days immediately before the day as of which the market price is being determined:

(i) the average of the closing bid and closing ask prices for each day on which there was no trading;

(ii) if the published market

(A) provides a closing price of securities of the class for each day that there was trading, the closing price, or

(B) provides only the highest and lowest prices, the average of the highest and lowest prices of securities of that class for each day that there was trading;

**"published market"** means, for a class of securities, a marketplace on which the securities are traded, if the prices at which they have been traded on that marketplace are regularly

(a) disseminated electronically, or

(b) published in a newspaper or business or financial publication of general and regular paid circulation;

**"rights offering circular"** means a completed Form 45-106F15 *Rights Offering Circular for Reporting Issuers*;

**"rights offering notice"** means a completed Form 45-106F14 *Rights Offering Notice for Reporting Issuers*;

**"secondary market liability provisions"** means the provisions of securities legislation set out in Appendix D opposite the name of the local jurisdiction;

**"soliciting dealer"** means a person whose interest in a distribution of rights is limited to soliciting the exercise of the rights by holders of those rights;

**"stand-by commitment"** means an agreement by a person to acquire the securities of an issuer not subscribed for under the basic subscription privilege or the additional subscription privilege;

**"stand-by guarantor"** means a person who agrees to provide the stand-by commitment.

**2.1(2)** For the purpose of the definition of "market price", if there is more than one published market for a security and

(a) only one of the published markets is in Canada, the market price is determined solely by reference to that market,

(b) more than one of the published markets is in Canada, the market price is determined solely by reference to the published market in Canada on which the greatest volume of trading in the particular class of securities occurred during the 20 trading days immediately before the date as of which the market price is being determined, and

(c) none of the published markets are in Canada, the market price is determined solely by reference to the published market on which the greatest volume of trading in the particular class of securities occurred during the 20 trading days immediately before the date as of which the market price is being determined.

**2.1(3)** The prospectus requirement does not apply to a distribution by an issuer, of a right to purchase a security of the issuer's own issue, to a security holder of the issuer if all of the following apply:

- (a) the issuer is a reporting issuer in at least one jurisdiction of Canada;
- (b) if the issuer is a reporting issuer in the local jurisdiction, the issuer has filed all periodic and timely disclosure documents that it is required to have filed in that jurisdiction as required by each of the following:
  - (i) applicable securities legislation;
  - (ii) an order issued by the regulator or, in Québec, the securities regulatory authority;
  - (iii) an undertaking to the regulator or, in Québec, the securities regulatory authority;
- (c) before the commencement of the exercise period for the rights, the issuer files and sends the rights offering notice to all security holders, resident in Canada, of the class of securities to be issued upon exercise of the rights;
- (d) concurrently with filing the rights offering notice, the issuer files a rights offering circular;
- (e) the basic subscription privilege is available on a pro rata basis to the security holders, resident in Canada, of the class of securities to be distributed upon the exercise of the rights;
- (f) in Québec, the documents filed under paragraphs (c) and (d) are prepared in French or in French and English;
- (g) the subscription price for a security to be issued upon the exercise of a right is:
  - (i) if there is a published market for the security, lower than the market price of the security on the day the rights offering notice is filed, or
  - (ii) if there is no published market for the security, lower than the fair value of the security on the day the rights offering notice is filed unless the issuer restricts all of its insiders from increasing their proportionate interest in the issuer through the exercise of the rights distributed or through a stand-by commitment;
- (h) if the distribution includes an additional subscription privilege, all of the following apply:
  - (i) the issuer grants the additional subscription privilege to all holders of the rights;
  - (ii) each holder of a right is entitled to receive, upon the exercise of the additional subscription privilege, the number or amount of securities equal to the lesser of
    - (A) the number or amount of securities subscribed for by the holder under the additional subscription privilege, and
    - (B) the number or amount calculated in accordance with the following formula:

$x(y/z)$  where

$x$  = the aggregate number or amount of securities available through unexercised rights after giving effect to the basic subscription privilege;

$y$  = the number of rights exercised by the holder under the basic subscription privilege;

$z$  = the aggregate number of rights exercised under the basic subscription privilege by holders of the rights that have subscribed for securities under the additional subscription privilege;

(iii) all unexercised rights have been allocated on a pro rata basis to holders who subscribed for additional securities under the additional subscription privilege;

(iv) the subscription price for the additional subscription privilege is the same as the subscription price for the basic subscription privilege;

(i) if the issuer enters into a stand-by commitment, all of the following apply:

(i) the issuer has granted an additional subscription privilege to all holders of the rights;

(ii) the issuer has included a statement in the rights offering circular that the issuer has confirmed that the stand-by guarantor has the financial ability to carry out its stand-by commitment;

(iii) the subscription price under the stand-by commitment is the same as the subscription price under the basic subscription privilege;

(j) if the issuer has stated in its rights offering circular that no security will be issued upon the exercise of a right unless a stand-by commitment is provided, or unless proceeds of no less than the stated minimum amount are received by the issuer, all of the following apply:

(i) the issuer has appointed a depository to hold all money received upon the exercise of the rights until either the stand-by commitment is provided or the stated minimum amount is received and the depository is one of the following:

(A) a Canadian financial institution;

(B) a registrant in the jurisdiction in which the funds are proposed to be held that is acting as managing dealer for the distribution of the rights or, if there is no managing dealer for the distribution of the rights, that is acting as a soliciting dealer;

(ii) the issuer and the depository have entered into an agreement, the terms of which require the depository to return the money referred to in subparagraph (i) in full to the holders of rights that have subscribed for securities under the distribution of the rights if the stand-by commitment is not provided or if the stated minimum amount is not received by the depository during the exercise period for the rights;

(k) the rights offering circular contains the following statement:

"There is no material fact or material change about [name of issuer] that has not been generally disclosed".

**2.1(4)** An issuer must not file an amendment to a rights offering circular filed under paragraph (3)(d) unless

(a) the amendment amends and restates the rights offering circular,

- (b) the issuer files the amended rights offering circular before the earlier of
  - (i) the listing date of the rights, if the issuer lists the rights for trading, and
  - (ii) the date the exercise period for the rights commences, and
- (c) the issuer issues and files a news release explaining the reason for the amendment concurrently with the filing of the amended rights offering circular.

**2.1(5)** On the closing date or as soon as practicable following the closing date, the issuer must issue and file a news release containing all of the following information:

- (a) the aggregate gross proceeds of the distribution;
- (b) the number or amount of securities distributed under the basic subscription privilege to
  - (i) all persons who were insiders before the distribution or became insiders as a result of the distribution, as a group, to the knowledge of the issuer after reasonable inquiry, and
  - (ii) all other persons, as a group;
- (c) the number or amount of securities distributed under the additional subscription privilege to
  - (i) all persons who were insiders before the distribution or became insiders as a result of the distribution, as a group, to the knowledge of the issuer after reasonable inquiry, and
  - (ii) all other persons, as a group;
- (d) the number or amount of securities distributed under any stand-by commitment;
- (e) the number or amount of securities of the class issued and outstanding as of the closing date;
- (f) the amount of any fees or commissions paid in connection with the distribution.

**2.1(6)** Subsection (3) does not apply to a distribution of rights if any of the following apply:

- (a) there would be an increase of more than 100% in the number, or, in the case of debt, the principal amount, of the outstanding securities of the class to be issued upon the exercise of the rights, assuming the exercise of all rights issued under a distribution of rights by the issuer during the 12 months immediately before the date of the rights offering circular;
- (b) the exercise period for the rights is less than 21 days, or more than 90 days, and commences after the day the rights offering notice is sent to security holders;
- (c) the issuer has entered into an agreement that provides for the payment of a fee to a person for soliciting the exercise of rights by holders of rights that were not security holders of the issuer immediately before the distribution under subsection (3) and that fee is higher than the fee payable for soliciting the exercise of rights by holders of rights that were security holders at that time.

*3. The Instrument is amended by adding the following sections:*

**Rights offering – stand-by commitment**

**Refer to Appendix E of National Instrument 45-102 *Resale of Securities*. First trades are subject to a seasoning period on resale.**

**2.1.1** The prospectus requirement does not apply to the distribution of a security by an issuer to a stand-by guarantor as part of a distribution under section 2.1 if the stand-by guarantor acquires the security as principal.

**Rights offering – issuer with a minimal connection to Canada**

**Refer to Appendix E of National Instrument 45-102 *Resale of Securities*. First trades are subject to a seasoning period on resale.**

**2.1.2(1)** The prospectus requirement does not apply to a distribution by an issuer, of a right to purchase a security of the issuer's own issue, to a security holder of the issuer if all of the following apply:

- (a) to the knowledge of the issuer after reasonable inquiry,
  - (i) the number of beneficial holders of the class for which the rights are issued that are resident in Canada does not constitute 10% or more of all holders of that class, and
  - (ii) the number or amount of securities of the issuer of the class for which the rights are issued that are beneficially held by security holders that are resident in Canada does not constitute, in the aggregate, 10% or more of the outstanding securities of that class;
- (b) all materials sent to any other security holders for the distribution of the rights are concurrently filed and sent to each security holder of the issuer that is resident in Canada;
- (c) the issuer files a written notice that it is relying on this exemption and a certificate that states that, to the knowledge of the person signing the certificate after reasonable inquiry,
  - (i) the number of beneficial holders of the class for which the rights are issued that are resident in Canada does not constitute 10% or more of all holders of that class, and
  - (ii) the number or amount of securities of the issuer of the class for which the rights are issued that are beneficially held by security holders that are resident in Canada does not constitute, in the aggregate, 10% or more of the outstanding securities of that class.

**2.1.2(2)** For the purposes of paragraph (1)(c), a certificate of an issuer must be signed,

- (a) if the issuer is a limited partnership, by an officer or director of the general partner of the issuer,
- (b) if the issuer is a trust, by a trustee or officer or director of a trustee of the issuer, or
- (c) in any other case, by an officer or director of the issuer.

**Rights offering – listing representation exemption**

**2.1.3** The listing representation prohibition does not apply to a listing representation made in a rights offering circular for a distribution of rights conducted under section 2.1.2 if the listing representation is not a misrepresentation.

**Rights offering – civil liability for secondary market disclosure**

**2.1.4(1)** The secondary market liability provisions apply to

- (a) the acquisition of an issuer's security pursuant to the exemption from the prospectus requirement set out in section 2.1, and

(b) the acquisition of an issuer's security pursuant to the exemption from the prospectus requirement set out in section 2.42 if the security previously issued by the issuer was acquired pursuant to the exemption set out in section 2.1.

**2.1.4(2)** For greater certainty, in British Columbia, the classes of acquisitions referred to in subsection (1) are prescribed classes of acquisitions under paragraph 140.2(b) of the *Securities Act* (British Columbia).

4. *The Instrument is amended by adding the following appendices:*

**Appendix C**  
**to**  
**National Instrument 45-106 Prospectus Exemptions**  
**Listing Representation Prohibitions**

<b>JURISDICTION</b>	<b>SECURITIES LEGISLATION REFERENCE</b>
ALBERTA	Subsection 92(3) of the <i>Securities Act</i> (Alberta)
MANITOBA	Subsection 69(3) of <i>The Securities Act</i> (Manitoba)
NEW BRUNSWICK	Subsection 58(3) of the <i>Securities Act</i> (New Brunswick)
NEWFOUNDLAND AND LABRADOR	Subsection 39(3) of the <i>Securities Act</i> (Newfoundland and Labrador)
NORTHWEST TERRITORIES	Subsection 147(1) of the <i>Securities Act</i> (Northwest Territories)
NOVA SCOTIA	Subsection 44(3) of the <i>Securities Act</i> (Nova Scotia)
NUNAVUT	Subsection 147(1) of the <i>Securities Act</i> (Nunavut)
ONTARIO	Subsection 38(3) of the <i>Securities Act</i> (Ontario)
PRINCE EDWARD ISLAND	Subsection 147(1) of the <i>Securities Act</i> (Prince Edward Island)
QUÉBEC	Subsection 199(4) of the <i>Securities Act</i> (Québec)
SASKATCHEWAN	Subsection 44(3) of <i>The Securities Act, 1988</i> (Saskatchewan)
YUKON	Subsection 147(1) of the <i>Securities Act</i> (Yukon).

**Appendix D**  
**to**  
**National Instrument 45-106 Prospectus Exemptions**  
**Secondary Market Liability Provisions**

<b>JURISDICTION</b>	<b>SECURITIES LEGISLATION REFERENCE</b>
ALBERTA	Part 17.01 of the <i>Securities Act</i> (Alberta)
BRITISH COLUMBIA	Part 16.1 of the <i>Securities Act</i> (British Columbia)
MANITOBA	Part XVIII of <i>The Securities Act</i> (Manitoba)
NEW BRUNSWICK	Part 11.1 of the <i>Securities Act</i> (New Brunswick)
NEWFOUNDLAND AND LABRADOR	Part XXII.1 of the <i>Securities Act</i> (Newfoundland and Labrador)
NORTHWEST TERRITORIES	Part 14 of the <i>Securities Act</i> (Northwest Territories)
NOVA SCOTIA	Sections 146A to 146N of the <i>Securities Act</i> (Nova Scotia)
NUNAVUT	Part 14 of the <i>Securities Act</i> (Nunavut)
ONTARIO	Part XXIII.1 of the <i>Securities Act</i> (Ontario)
PRINCE EDWARD ISLAND	Part 14 of the <i>Securities Act</i> (Prince Edward Island)
QUÉBEC	Division II of Chapter II of Title VIII of the <i>Securities Act</i> (Québec)
SASKATCHEWAN	Part XVIII.1 of <i>The Securities Act, 1988</i> (Saskatchewan)
YUKON	Part 14 of the <i>Securities Act</i> (Yukon) .

5. *The Instrument is amended by adding the following forms:*

**Form 45-106F14**  
***Rights Offering Notice for Reporting Issuers***

This is the form of notice you must use for a distribution of rights under section 2.1 of National Instrument 45-106 *Prospectus Exemptions*. In this form, a distribution of rights is sometimes referred to as a "rights offering".

**PART 1      GENERAL INSTRUCTIONS**

Deliver this rights offering notice to each security holder eligible to receive rights under the rights offering. Using plain language, prepare the rights offering notice using a question-and-answer format.

*Guidance*

We do not expect the rights offering notice to be longer than two pages in length.

## **PART 2 THE RIGHTS OFFERING NOTICE**

### **1. Basic information**

State the following with the bracketed information completed:

"[Name of issuer]  
Notice to security holders – [Date]"

If you have less than 12 months of working capital and are aware of material uncertainties that may cast significant doubt upon your ability to continue as a going concern, include the following language in bold immediately below the date of the rights offering notice:

**"We currently have sufficient working capital to last [insert the number of months of working capital as at the date of the rights offering circular] months. We require [insert the percentage of the rights offering required to be taken up]% of the offering to last 12 months."**

### **2. Who can participate in the rights offering?**

State the record date and identify which class of securities is subject to the offering.

### **3. Who is eligible to receive rights?**

List the jurisdictions in which the issuer is offering rights.

Explain how a security holder in a foreign jurisdiction can acquire the rights and the securities issuable upon the exercise of the rights.

### **4. How many rights are we offering?**

State the total number of rights offered.

### **5. How many rights will you receive?**

State the number of rights a security holder on the record date will receive for every security held as of the record date.

### **6. What does one right entitle you to receive?**

State the number of rights required to acquire a security upon the exercise of the rights. Also state the subscription price.

### **7. How will you receive your rights?**

Include a rights certificate with the rights offering notice if the rights offering notice is being delivered to a registered security holder and direct the security holder's attention to this certificate.

If you are delivering the rights offering notice to a security holder in a foreign jurisdiction, provide instructions on how that security holder can receive its rights certificate.

### **8. When and how can you exercise your rights?**

State when the exercise period ends for security holders who have their rights certificate.



Also, provide instructions on how to exercise the rights to security holders whose securities are held in a brokerage account.

## **9. What are the next steps?**

Include the following statement, using wording substantially similar to the following:

**"This document contains key information you should know about [insert name of issuer]. You can find more details in the issuer's rights offering circular. To obtain a copy, visit [insert name of issuer]'s profile on the SEDAR website, visit [insert the website of the issuer], ask your dealer representative for a copy or contact [insert name of contact person of the issuer] at [insert the phone number or email of the contact person of the issuer]. You should read the rights offering circular, along with [insert name of issuer]'s continuous disclosure record, to make an informed decision."**

## **10. Signature**

Sign the rights offering notice. State the name and title of the person signing the rights offering notice.

**Form 45-106F15**  
***Rights Offering Circular for Reporting Issuers***

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## **PART 1            INSTRUCTIONS**

### **1.        Overview of the rights offering circular**

This is the form of circular you must use for a distribution of rights under section 2.1 of National Instrument 45-106 *Prospectus Exemptions*. In this form, a distribution of rights is sometimes referred to as a "rights offering".

The objective of the rights offering circular is to provide information about the rights offering and details on how an existing security holder can exercise the rights.

Prepare the rights offering circular using a question-and-answer format.

#### *Guidance*

We do not expect the rights offering circular to be longer than 10 pages.

### **2.        Incorporating information by reference**

You must not incorporate information into the rights offering circular by reference.

### **3.        Plain language**

Use plain, easy to understand language in preparing the rights offering circular. Avoid technical terms but if they are necessary, explain them in a clear and concise manner.

### **4.        Format**

Except as otherwise stated, use the questions presented in this form as headings in the rights offering circular. To make the rights offering circular easier to understand, present information in tables.

### **5.        Omitting information**

Unless this form indicates otherwise, you are not required to complete an item in this form if it does not apply.

### **6.        Date of information**

Unless this form indicates otherwise, present the information in this form as of the date of the rights offering circular.

### **7.        Forward-looking information**

If you disclose forward-looking information in the rights offering circular, you must comply with Part 4A.3 of National Instrument 51-102 *Continuous Disclosure Obligations*.

## PART 2 SUMMARY OF OFFERING

### 8. Required statement

State in italics, at the top of the cover page, the following:

*"This rights offering circular is prepared by management. No securities regulatory authority or regulator has assessed the merits of these securities or reviewed this circular. Any representation to the contrary is an offence.*

*This is the circular we referred to in the [insert date of the rights offering notice] rights offering notice, which you should have already received. Your rights certificate and relevant forms were enclosed with the rights offering notice. This circular should be read in conjunction with the rights offering notice and our continuous disclosure prior to making an investment decision."*

#### *Guidance*

We remind issuers and their executives that they are liable under secondary market liability provisions for the disclosure in this rights offering circular.

### 9. Basic disclosure about the distribution

Immediately below the statement referred to in item 8, state the following with the bracketed information completed:

"Rights offering circular

[Date]

[Name of Issuer]"

If you have less than 12 months of working capital and are aware of material uncertainties that may cast significant doubt upon your ability to continue as a going concern, state the following in bold immediately below the name of the issuer:

**"We currently have sufficient working capital to last [insert the number of months of working capital as at the date of the rights offering circular] months. We require [insert the percentage of the rights offering required to be taken up]% of the offering to last 12 months."**

### 10. Purpose of the rights offering circular

State the following in bold:

**"Why are you reading this circular?"**

Explain the purpose of the rights offering circular. State that the rights offering circular provides details about the rights offering and refer to the rights offering notice that you sent to security holders.

### 11. Securities offered

State the following in bold:

**"What is being offered?"**

Provide the number of rights you are offering to each security holder under the rights offering. If your outstanding share capital includes more than one class or type of security, identify which security holders are eligible to receive rights. Include the record date the issuer will use to determine which security holders are eligible to receive rights.

**12. Right entitlement**

State the following in bold:

**"What do[es] [insert number of rights] right[s] entitle you to receive?"**

Explain what the security holder will receive upon the exercise of the rights. Also include the number of rights needed to acquire the underlying security.

**13. Subscription price**

State the following in bold:

**"What is the subscription price?"**

Provide the price a security holder must pay to exercise the rights. If there is no published market for the securities, either explain how you determined the fair value of the securities or explain that no insider will be able to increase their proportionate interest through the rights offering.

*Guidance*

Refer to paragraph 2.1(3)(g) of NI 45-106 which provides that the subscription price must be lower than the market price if there is a published market for the securities. If there is no published market, either the subscription price must be lower than the fair value of the securities or insiders are not permitted to increase their proportionate interest in the issuer through the rights offering.

**14. Expiry of offer**

State the following in bold:

**"When does the offer expire?"**

Provide the date and time that the offer expires.

*Guidance*

Refer to paragraph 2.1(6)(b) of NI 45-106 which provides that the prospectus exemption is not available where the exercise period for the rights is less than 21 days or more than 90 days after the day the rights offering notice is sent to security holders.

**15. Description of the securities**

State the following in bold:

**"What are the significant attributes of the rights issued under the rights offering and the securities to be issued upon the exercise of the rights?"**

Describe the significant attributes of the rights and securities to be issued upon exercise of the rights. Include in the description the number of outstanding securities of the class of securities issuable upon exercise of the rights, as of the date of the rights offering circular.

**16. Securities issuable under the rights offering**

State the following in bold:

**"What are the minimum and maximum number or amount of [insert type of security issuable upon the exercise of the rights] that may be issued under the rights offering?"**

Provide the minimum, if any, and maximum number or amount of securities that may be issuable upon the exercise of the rights.

**17. Listing of securities**

State the following in bold:

**"Where will the rights and the securities issuable upon the exercise of the rights be listed for trading?"**

Identify the exchange(s) and quotation system(s), if any, on which the rights and underlying securities are listed, traded or quoted. If no market exists, or is expected to exist, state the following in bold:

**"There is no market through which these [rights and/or underlying securities] may be sold."**

**PART 3 USE OF AVAILABLE FUNDS**

**18. Available funds**

State the following in bold:

**"What will our available funds be upon the closing of the rights offering?"**

Using the following table, disclose the available funds after the rights offering. If you plan to combine additional sources of funding with the offering proceeds to achieve your principal capital-raising purpose, provide details about each additional source of funding.

If there is no minimum offering or stand-by commitment, or if the minimum offering or stand-by commitment represents less than 75% of the rights offering, include threshold disclosure if only 15%, 50% or 75% of the entire offering is taken up.

Disclose the amount of working capital deficiency, if any, of the issuer as of the most recent month end. If the available funds will not eliminate the working capital deficiency, state how you intend to eliminate or manage the deficiency. If there has been a significant change in the working capital since the most recently audited annual financial statements, explain those changes.

*Guidance*

We would consider a significant change to include a change in the working capital that results in material uncertainty regarding the issuer's going concern assumption, or a change in the working capital balance from positive to deficiency or vice versa.

		Assuming minimum offering or stand-by commitment only	Assuming 15% of offering	Assuming 50% of offering	Assuming 75% of offering	Assuming 100% of offering
A	Amount to be raised by this offering	\$	\$	\$	\$	\$
B	Selling commissions and fees	\$	\$	\$	\$	\$
C	Estimated offering costs (e.g., legal, accounting, audit)	\$	\$	\$	\$	\$
D	Available funds: D = A - (B+C)	\$	\$	\$	\$	\$
E.	Additional sources of funding required	\$	\$	\$	\$	\$
F.	Working capital deficiency	\$	\$	\$	\$	\$
G.	Total: G = (D+E) - F	\$	\$	\$	\$	\$

#### 19. Use of available funds

State the following in bold:

**"How will we use the available funds?"**

Using the following table, provide a detailed breakdown of how you will use the available funds. Describe in reasonable detail each of the principal purposes, with approximate amounts.

Description of intended use of available funds listed in order of priority.	Assuming minimum offering or stand-by commitment only	Assuming 15% of offering	Assuming 50% of offering	Assuming 75% of offering	Assuming 100% of offering
	\$	\$	\$	\$	\$
	\$	\$	\$	\$	\$
Total: Equal to G in the available funds in item 18	\$	\$	\$	\$	\$

If there is no minimum offering or stand-by commitment, or if the minimum offering or stand-by commitment represents less than 75% of the rights offering, include threshold disclosure if only 15%, 50% or 75% of the entire offering is taken up.

*Instructions:*

1. *If the issuer has significant short-term liquidity requirements, discuss, for each threshold amount (i.e., 15%, 50% and 75%), the impact, if any, of raising that amount on its liquidity, operations, capital resources and solvency. Short-term liquidity requirements include non-discretionary expenditures for general corporate purposes and overhead expenses, significant short-term capital or contractual commitments, and expenditures required to achieve stated business objectives.*



*When discussing the impact of raising each threshold amount on your liquidity, operations, capital resources and solvency, include all of the following in the discussion:*

- *which expenditures will take priority at each threshold, and what effect this allocation would have on your operations and business objectives and milestones;*
- *the risks of defaulting on payments as they become due, and what effect the defaults would have on your operations;*
- *an analysis of your ability to generate sufficient amounts of cash and cash equivalents from other sources, the circumstances that could affect those sources and management's assumptions in conducting this analysis.*

*State the minimum amount required to meet the short-term liquidity requirements. In the event that the available funds could be less than the amount required to meet the short-term liquidity requirements, describe how management plans to discharge its liabilities as they become due. Include the assumptions management used in its plans.*

*If the available funds could be insufficient to cover the issuer's short-term liquidity requirements and overhead expenses for the next 12 months, include management's assessment of the issuer's ability to continue as a going concern. If there are material uncertainties that cast significant doubt upon the issuer's ability to continue as a going concern, state this fact in bold.*

- 2. If you will use more than 10% of available funds to reduce or retire indebtedness and the indebtedness was incurred within the two preceding years, describe the principal purposes for which the indebtedness was used. If the creditor is an insider, associate or affiliate of the issuer, identify the creditor and the nature of the relationship to the issuer and disclose the outstanding amount owed.*
- 3. If you will use more than 10% of available funds to acquire assets, describe the assets. If known, disclose the particulars of the purchase price being paid for or being allocated to the assets or categories of assets, including intangible assets. If the vendor of the asset is an insider, associate or affiliate of the issuer, identify the vendor and nature of the relationship to the issuer, and disclose the method used to determine the purchase price.*
- 4. If any of the available funds will be paid to an insider, associate or affiliate of the issuer, disclose in a note to the use of available funds table in item 19 the name of the insider, associate or affiliate, the relationship to the issuer, and the amount to be paid.*
- 5. If you will use more than 10% of available funds for research and development of products or services,*
  - a. describe the timing and stage of research and development that management anticipates will be reached using the funds,*
  - b. describe the major components of the proposed programs you will use the available funds for, including an estimate of anticipated costs,*
  - c. state if you are conducting your own research and development, are subcontracting out the research and development or are using a combination of those methods, and*
  - d. describe the additional steps required to reach commercial production and an estimate of costs and timing.*
- 6. If you may reallocate available funds, include the following statement:*

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

**20. How long will the available funds last?**

State the following in bold:

**"How long will the available funds last?"**

Explain how long management anticipates the available funds will last. If you do not have adequate funds to cover anticipated expenses for the next 12 months, state the sources of financing that the issuer has arranged but not yet used. Also, provide an analysis of the issuer's ability to generate sufficient amounts of cash and cash equivalents in the short term and the long term to maintain capacity, and to meet planned growth or to fund development activities. You should describe sources of funding and circumstances that could affect those sources that are reasonably likely to occur. If this results in material uncertainties that cast significant doubt upon the issuer's ability to continue as a going concern, disclose this fact.

If you expect the available funds to last for more than 12 months, state this expectation.

**PART 4 INSIDER PARTICIPATION**

**21. Intention of insiders**

State the following in bold:

**"Will insiders be participating?"**

Provide the answer. If "yes", provide details of insiders' intentions to exercise their rights, to the extent known to the issuer after reasonable inquiry.

**22. Holders of at least 10% before and after the rights offering**

State the following in bold:

**"Who are the holders of 10% or more of our securities before and after the rights offering?"**

Provide this information in the following tabular form, to the extent known to the issuer after reasonable inquiry:

<b>Name</b>	<b>Holdings before the offering</b>	<b>Holdings after the offering</b>
[Name of security holder]	[State the number or amount of securities held and the percentage of security holdings this represents]	[State the number or amount of securities held and the percentage of security holdings this represents]

**PART 5 DILUTION**

**23. Dilution**

State the following in bold:

**"If you do not exercise your rights, by how much will your security holdings be diluted?"**

Provide a percentage in the rights offering circular and state the assumptions used, as appropriate.

**PART 6 STAND-BY COMMITMENT**

**24. Stand-by guarantor**

State the following in bold:

**"Who is the stand-by guarantor and what are the fees?"**

Explain the nature of the issuer's relationship with the stand-by guarantor including whether, and the basis on which, if applicable, the stand-by guarantor is a related party of the issuer. Describe the stand-by commitment and the material terms of the basis on which the stand-by guarantor may terminate the obligation under the stand-by commitment.

*Instructions:*

*In determining if a stand-by guarantor is a related party, you should refer to the issuer's GAAP which has the same meaning as in National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards.*

**25. Financial ability of the stand-by guarantor**

State the following in bold:

**"Have we confirmed that the stand-by guarantor has the financial ability to carry out its stand-by commitment?"**

If the offering has a stand-by commitment, state that you have confirmed that the stand-by guarantor has the financial ability to carry out its stand-by commitment.

**26. Security holdings of the stand-by guarantor**

State the following in bold:

**"What are the security holdings of the stand-by guarantor before and after the rights offering?"**

Provide this information in the following tabular form, to the extent known to the issuer after reasonable inquiry:

<b>Name</b>	<b>Holdings before the offering</b>	<b>Holdings after the offering if the stand-by guarantor takes up the entire stand-by commitment</b>
[Name of stand-by guarantor]	[State the number or amount of securities held and the percentage of security holdings this represents]	[State the number or amount of securities held and the percentage of security holdings this represents]

**PART 7 MANAGING DEALER, SOLICITING DEALER AND UNDERWRITING CONFLICTS**

**27. The managing dealer, the soliciting dealer and their fees**

State the following in bold:

**"Who is the [managing dealer/soliciting dealer] and what are its fees?"**

Identify the managing dealer, if any, and the soliciting dealer, if any, and describe the commissions or fees payable to them.

**28. Managing dealer/soliciting dealer conflicts**

State the following in bold:

**"Does the [managing dealer/soliciting dealer] have a conflict of interest?"**

If disclosure is required by National Instrument 33-105 *Underwriting Conflicts*, include that disclosure.

## **PART 8 HOW TO EXERCISE THE RIGHTS**

### **29. Security holders who are registered holders**

State the following in bold:

**"How does a security holder that is a registered holder participate in the rights offering?"**

Explain how a registered holder can participate in the rights offering.

### **30. Security holders who are not registered holders**

State the following in bold:

**"How does a security holder that is not a registered holder participate in the rights offering?"**

Explain how a security holder who is not a registered holder can participate in the rights offering.

### **31. Eligibility to participate**

State the following in bold:

**"Who is eligible to receive rights?"**

List the jurisdictions in which you are making the rights offering.

Explain how a security holder in a foreign jurisdiction can acquire the rights and securities issuable upon the exercise of the rights.

### **32. Additional subscription privilege**

State the following in bold:

**"What is the additional subscription privilege and how can you exercise this privilege?"**

Describe the additional subscription privilege and explain how a holder of rights who has exercised the basic subscription privilege can exercise the additional subscription privilege.

### **33. Transfer of rights**

State the following in bold:

**"How does a rights holder sell or transfer rights?"**

Explain how a holder of rights can sell or transfer rights. If the rights will be listed on an exchange, provide further details related to the trading of the rights on the exchange.

### **34. Trading of underlying securities**

State the following in bold:

**"When can you trade securities issuable upon the exercise of your rights?"**

State when a security holder can trade the securities issuable upon the exercise of the rights.

**35. Resale restrictions**

State the following in bold:

**"Are there restrictions on the resale of securities?"**

If the issuer is offering rights in one or more jurisdictions where there are restrictions on the resale of securities, include a statement disclosing when those rights and underlying securities will become freely tradable and that until then such securities may not be resold except pursuant to a prospectus or prospectus exemption, which may be available only in limited circumstances.

**36. Fractional securities upon exercise of the rights**

State the following in bold:

**"Will we issue fractional underlying securities upon exercise of the rights?"**

Respond "yes" or "no" and explain (if necessary).

**PART 9 APPOINTMENT OF DEPOSITORY**

**37. Depository**

State the following in bold:

**"Who is the depository?"**

If the rights offering is subject to a minimum offering amount, or if there is a stand-by commitment, state the name of the depository you appointed to hold all money received upon exercise of the rights until the minimum offering amount or stand-by commitment is received or until the money is returned.

**38. Release of funds from depository**

State the following in bold:

**"What happens if we do not raise the [minimum offering amount] or if we do not receive funds from the stand-by guarantor?"**

If the offering is subject to a minimum offering amount, or if there is a stand-by commitment, state that you have entered into an agreement with the depository under which the depository will return the money held by it to holders of rights that have already subscribed for securities under the offering, if you do not raise the minimum offering amount or receive funds from the stand-by guarantor.

**PART 10 FOREIGN ISSUERS**

**39. Foreign issuers**

State the following in bold:

**"How can you enforce a judgment against us?"**

If the issuer is incorporated, continued, or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada, state the following:

"[The issuer] is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada. It may not be possible for investors to enforce judgments obtained in Canada against any person or company that is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada."

## **PART 11      ADDITIONAL INFORMATION**

### **40.      Additional information**

State the following in bold:

**"Where can you find more information about us?"**

Provide the SEDAR website address and state that a security holder can access the issuer's continuous disclosure from that site. If applicable, provide the issuer's website address.

## **PART 12      MATERIAL FACTS AND MATERIAL CHANGES**

### **41.      Material facts and material changes**

State the following in bold:

**"There is no material fact or material change about the issuer that has not been generally disclosed."**

If there is a material fact or material change about the issuer that has not been generally disclosed, add disclosure of that material fact or material change.

#### *Guidance*

Issuers should be aware that disclosing a material change in the rights offering circular does not relieve the issuer of the requirement to issue a news release and file a material change report as required by Part 7 of NI 51-102.

6. This Instrument comes into force on December 8, 2015.

7. This Instrument may be cited as MSC Rule 2015-25.

**Annex D2**

**THE MANITOBA SECURITIES COMMISSION**  
**MSC Rule No. 2015-26**  
(Section 149.1, *The Securities Act*)

**AMENDMENTS TO**  
**NATIONAL INSTRUMENT 41-101**  
***GENERAL PROSPECTUS REQUIREMENTS***

1. *National Instrument 41-101 General Prospectus Requirements is amended by this Instrument.*

2. *The following Part is added after section 8.3:*

**PART 8A – Rights Offerings**

**Application and definitions**

**8A.1(1)** This Part applies to an issuer that files a preliminary or final prospectus to distribute rights.

**8A.1(2)** In this Part,

"**additional subscription privilege**" means a privilege, granted to a holder of a right, to subscribe for a security not subscribed for by any holder under a basic subscription privilege;

"**basic subscription privilege**" means a privilege to subscribe for the number or amount of securities set out in a rights certificate held by the holder of the rights certificate;

"**managing dealer**" means a person or company that has entered into an agreement with an issuer under which the person or company has agreed to organize and participate in the solicitation of the exercise of the rights issued by the issuer;

"**market price**" means, for securities of a class for which there is a published market,

(a) except as provided in paragraph (b),

(i) if the published market provides a closing price, the simple average of the closing price of securities of that class on the published market for each of the trading days on which there was a closing price falling not more than 20 trading days immediately before the day as of which the market price is being determined, or

(ii) if the published market does not provide a closing price, but provides only the highest and lowest prices of securities of the class traded, the average of the simple averages of the highest and lowest prices of securities of the class on the published market for each of the trading days on which there were highest and lowest prices falling not more than 20 trading days immediately before the day as of which the market price is being determined, or

(b) if trading of securities of the class on the published market has occurred on fewer than 10 of the immediately preceding 20 trading days, the average of the following amounts established for each of the 20 trading days immediately before the day as of which the market price is being determined:

(i) the average of the closing bid and closing ask prices for each day on which there was no trading;

(ii) if the published market

(A) provides a closing price of securities of the class for each day that there was trading, the closing price, or

(B) provides only the highest and lowest prices, the average of the highest and lowest prices of securities of that class for each day that there was trading;

**"published market"** means, for a class of securities, a marketplace on which the securities are traded, if the prices at which they have been traded on that marketplace are regularly

(a) disseminated electronically, or

(b) published in a newspaper or business or financial publication of general and regular paid circulation;

**"soliciting dealer"** means a person or company whose interest in a distribution of rights is limited to soliciting the exercise of the rights by holders of those rights;

**"stand-by commitment"** means an agreement by a person or company to acquire the securities of an issuer not subscribed for under the basic subscription privilege or the additional subscription privilege.

**8A.1(3)** For the purpose of the definition of "market price", if there is more than one published market for a security and

(a) only one of the published markets is in Canada, the market price is determined solely by reference to that market,

(b) more than one of the published markets is in Canada, the market price is determined solely by reference to the published market in Canada on which the greatest volume of trading in the particular class of securities occurred during the 20 trading days immediately before the date as of which the market price is being determined, and

(c) none of the published markets are in Canada, the market price is determined solely by reference to the published market on which the greatest volume of trading in the particular class of securities occurred during the 20 trading days immediately before the date as of which the market price is being determined.

#### **Filing of prospectus for a rights offering**

**8A.2(1)** An issuer must not file a prospectus for a distribution of rights unless all of the following apply:

(a) in addition to qualifying the distribution of the rights, the prospectus qualifies the distribution of the securities issuable upon the exercise of the rights;

(b) if there is a managing dealer, the managing dealer complies with section 5.9 as if the dealer were an underwriter;

(c) the exercise period for the rights is at least 21 days after the date on which the prospectus is sent to security holders;

(d) the subscription price for a security to be issued upon the exercise of a right is,



(i) if there is a published market for the security, lower than the market price of the security on the date of the final prospectus, or

(ii) if there is no published market for the security, lower than the fair value of the security on the date of the final prospectus unless the issuer restricts all of its insiders from increasing their proportionate interest in the issuer through the exercise of the rights distributed under the prospectus or through a stand-by commitment.

**8A.2(2)** If subparagraph (1)(d)(ii) applies, the issuer must deliver to the regulator or, in Québec, the securities regulatory authority independent evidence of fair value.

### **Additional subscription privilege**

**8A.3** An issuer must not grant an additional subscription privilege to a holder of a right unless all of the following apply:

(a) the issuer grants the additional subscription privilege to all holders of a right;

(b) each holder of a right is entitled to receive, upon the exercise of the additional subscription privilege, the number or amount of securities equal to the lesser of

(i) the number or amount of securities subscribed for by the holder under the additional subscription privilege, and

(ii) the number calculated in accordance with the following formula:

$x(y/z)$  where

$x$  = the aggregate number or amount of securities available through unexercised rights after giving effect to the basic subscription privilege;

$y$  = the number of rights exercised by the holder under the basic subscription privilege;

$z$  = the aggregate number of rights exercised under the basic subscription privilege by holders of the rights that have subscribed for securities under the additional subscription privilege;

(c) all unexercised rights have been allocated on a pro rata basis to holders who subscribed for additional securities under the additional subscription privilege;

(d) the subscription price for the additional subscription privilege is the same as the subscription price for the basic subscription privilege.

### **Stand-by commitments**

**8A.4** If an issuer enters into a stand-by commitment for a distribution of rights, all of the following apply:

(a) the issuer must grant an additional subscription privilege to all holders of a right;

(b) the issuer must deliver to the regulator or, in Québec, the securities regulatory authority evidence that the person or company providing the stand-by commitment has the financial ability to carry out the stand-by commitment;

(c) the subscription price under the stand-by commitment must be the same as the subscription price under the basic subscription privilege.

### **Appointment of depository**

**8A.5** If an issuer has stated in a prospectus that no security will be issued upon the exercise of a right unless a stand-by commitment is provided, or unless proceeds of no less than the stated minimum amount are received by the issuer, all of the following apply:

(a) the issuer must appoint a depository to hold all money received upon the exercise of the rights until either the stand-by commitment is provided or the stated minimum amount is received and the depository is one of the following:

(i) a Canadian financial institution;

(ii) a registrant in the jurisdiction in which the funds are proposed to be held that is acting as managing dealer for the distribution of the rights, or, if there is no managing dealer for the distribution of the rights, that is acting as a soliciting dealer;

(b) the issuer and the depository must enter into an agreement, the terms of which require the depository to return the money referred to in paragraph (a) in full to the holders of rights that have subscribed for securities under the distribution of the rights if the stand-by commitment is not provided or if the stated minimum amount is not received by the depository during the exercise period for the rights.

### **Amendment**

**8A.6** If an issuer has filed a final prospectus for a distribution of rights, the issuer must not change the terms of the distribution.

**3. Paragraph 9.2(b) is amended by deleting "and" at the end of subparagraph (ii), by replacing the "." with ";" and by adding the following subparagraphs:**

(iv) **Evidence of financial ability** – the evidence of financial ability required to be delivered under section 8A.4 if it has not previously been delivered; and

(v) **Evidence of fair value** – the evidence of fair value required to be delivered under subsection 8A.2(2) if it has not previously been delivered..

4. This Instrument comes into force on December 8, 2015.

5. This Instrument may be cited as MSC Rule 2015-26.

**Annex D3**

**THE MANITOBA SECURITIES COMMISSION**  
**MSC Rule No. 2015-27**  
(Section 149.1, *The Securities Act*)

**AMENDMENTS TO**  
**NATIONAL INSTRUMENT 44-101**  
***SHORT FORM PROSPECTUS DISTRIBUTIONS***

- 1. National Instrument 44-101 Short Form Prospectus Distributions is amended by this Instrument.*
- 2. Paragraph 4.2(b) is amended by deleting “and” at the end of subparagraph (ii), by replacing the “.” with “,” and by adding the following subparagraphs:*
  - (iv) the evidence of financial ability required to be delivered under section 8A.4 of NI 41-101 if it has not previously been delivered, and
  - (v) the evidence of fair value required to be delivered under subsection 8A.2(2) of NI 41-101 if it has not previously been delivered..
- 3. This Instrument comes into force on December 8, 2015.*
- 4. This Instrument may be cited as MSC Rule 2015-27.*

**Annex D4**

**THE MANITOBA SECURITIES COMMISSION**  
**MSC Rule No. 2015-28**  
(Section 149.1, *The Securities Act*)

**AMENDMENTS TO**  
**NATIONAL INSTRUMENT 45-102**  
***RESALE OF SECURITIES***

1. *National Instrument 45-102 Resale of Securities is amended by this Instrument.*
2. *Appendix E is amended by replacing “section 2.1 [Rights offering]” with:*
  - section 2.1            *[Rights offering – reporting issuer]*
  - section 2.1.1        *[Rights offering – stand-by commitment]*
  - section 2.1.2        *[Rights offering – issuer with a minimal connection to Canada].*
3. This Instrument comes into force on December 8, 2015.
4. This Instrument may be cited as MSC Rule 2015-28.

**Annex D5**

**THE MANITOBA SECURITIES COMMISSION**  
**MSC Rule No. 2015-29**  
(Section 149.1, *The Securities Act*)

**REPEAL OF**  
**NATIONAL INSTRUMENT**  
**45-101 *RIGHTS OFFERINGS***

- 1. National Instrument 45-101 Rights Offerings is repealed by this Instrument.*
2. This Instrument comes into force on December 8, 2015.
3. This Instrument may be cited as MSC Rule 2015-29.

**Annex E1**

**THE MANITOBA SECURITIES COMMISSION**  
**MSC Rule No. 2015-30**  
(Section 149.1, *The Securities Act*)

**AMENDMENTS TO**  
**MULTILATERAL INSTRUMENT 11-102**  
**PASSPORT SYSTEM**

1. *Multilateral Instrument 11-102 Passport System is amended by this Instrument.*
2. *Appendix D is amended by repealing the following:*

Rights offering requirements	NI 45-101
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3. This Instrument comes into force on December 8, 2015.
4. This Instrument may be cited as MSC Rule 2015-30.

**Annex E2**

**THE MANITOBA SECURITIES COMMISSION**  
**MSC Rule No. 2015-31**  
(Section 149.1, *The Securities Act*)

**AMENDMENTS TO**  
**NATIONAL INSTRUMENT 13-101**  
***SYSTEM FOR ELECTRONIC DOCUMENT ANALYSIS AND RETRIEVAL (SEDAR)***

1. *National Instrument 13-101 System for Electronic Document Analysis and Retrieval (SEDAR) is amended by this Instrument.*
2. *Paragraph II.A.(a) of Appendix A is amended by*
  - a. *repealing items 17 and 18, and*
  - b. *adding the following items:*
    19. Rights Offering – Circular
    20. Rights Offering – Minimal Connection
3. This Instrument comes into force on December 8, 2015.
4. This Instrument may be cited as MSC Rule 2015-31.

**Annex E3**

**THE MANITOBA SECURITIES COMMISSION**  
**MSC Rule No. 2015-32**  
(Section 149.1, *The Securities Act*)

**AMENDMENTS TO**  
**MULTILATERAL INSTRUMENT 13-102**  
**SYSTEM FEES FOR SEDAR AND NRD**

1. *Multilateral Instrument 13-102 System Fees for SEDAR and NRD is amended by this Instrument.*

2. *Subsection 1(2) is amended by replacing*

rights offering	National Instrument 45-101 <i>Rights Offerings</i>
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*with*

rights offering circular	Section 2.1 of National Instrument 45-106 <i>Prospectus Exemptions</i>
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3. *Column B of Item 13 of Appendix B is amended by replacing “Rights offering material” with “Rights offering circular”.*

4. This Instrument comes into force on December 8, 2015.

5. This Instrument may be cited as MSC Rule 2015-32.



## Annex F1

### Changes to Companion Policy 45-106CP *Prospectus Exemptions*

1. *Companion Policy 45-106CP Prospectus Exemptions is changed by this Instrument.*
2. *Part 3 is changed by adding the following sections:*

#### **3.10 Rights offering - reporting issuer**

- (1) Offer available to all security holders in Canada

One of the conditions of the rights offering exemption for reporting issuers in section 2.1 of NI 45-106 is that the issuer must make the basic subscription privilege available on a pro rata basis to every security holder in Canada of the class of securities to be distributed on exercise of the rights, regardless of how many security holders reside in a local jurisdiction.

- (2) Market price and fair value

Paragraph 2.1(3)(g) of NI 45-106 provides that if there is no published market for the securities, the subscription price must be lower than fair value unless the issuer restricts all insiders from increasing their proportionate interest in the issuer through the rights offering or a stand-by commitment. If there is no published market for the securities and the issuer restricts all insiders from increasing their proportionate interest in the issuer, the subscription price may be set at any price. Under section 13 of Form 45-106F15, an issuer must explain in its rights offering circular how it determined the fair value of the securities. For these purposes, an issuer could consider a fairness opinion or a valuation.

For the purposes of paragraph 2.1(3)(g) of NI 45-106, insiders will not be prohibited from participating in the offering if the published market price or fair value of the securities falls below the subscription price following filing of the rights offering notice.

The rights offering exemption is not intended to be used by insiders or related parties for the purpose of increasing their proportionate interest in the issuer, although we recognize that as a potential outcome. One of the reasons for the above pricing restrictions, and the similar restrictions in paragraph 2.1(3)(g) for issuers with a published market, is to prevent insiders and other related parties from using the rights offering exemption as a means of taking control of the issuer.

- (3) Stand-by commitments

To provide the confirmation in subparagraph 2.1(3)(i)(ii) of NI 45-106 that the stand-by guarantor has the financial ability to carry out its obligations under the stand-by commitment, the issuer could consider the following:

- a statement of net worth attested to by the stand-by guarantor
- a bank letter of credit
- the most recent annual audited financial statements of the stand-by guarantor.

A registered dealer that acquires a security of an issuer as part of the stand-by commitment may use the exemption in section 2.1.1 of NI 45-106. However, we would have concerns if a dealer or other person uses the exemption in section 2.1.1 in a situation where the dealer or other person

- (a) is acting as an underwriter with respect to the distribution, and
- (b) acquires the security with a view to distribution.

If (a) and (b) apply, the dealer or other person should acquire the security under the exemption in section 2.33 of NI 45-106. Please refer to section 1.7 of this Companion Policy.

(4) Calculation of number of securities

In calculating the number of outstanding securities for purposes of paragraph 2.1(3)(h) of NI 45-106, CSA staff generally take the view that

- (a) if

$x =$  the number or amount of securities of the class of the securities that may be or have been issued upon the exercise of rights under all rights offerings made by the issuer in reliance on the exemption during the previous 12 months,

$y =$  the maximum number or amount of securities that may be issued upon exercise of rights under the proposed rights offering, and

$z =$  the number or amount of securities of the class of securities that is issuable upon the exercise of rights under the proposed rights offering that are outstanding as of the date of the rights offering circular;

then  $\frac{x + y}{z}$  must be equal to or less than 1, and

- (b) if the convertible securities that may be acquired under the proposed rights offering may be converted before 12 months after the date of the proposed rights offering, the potential increase in outstanding securities, and specifically, “y” in paragraph (a), should be calculated as if the conversion of those convertible securities had occurred,
- (c) despite paragraph (b), if the convertible security is a warrant that forms part of a unit and the warrant has nominal or no value, the potential increase in outstanding securities, and specifically, “y” in paragraph (a), should not be calculated as if the conversion of the warrant had occurred.

One of the conditions of the exemption is that the issuer must make the basic subscription privilege available on a pro rata basis to each security holder of the class of securities to be distributed on exercise of the rights. For clarity, this means that an issuer cannot use a rights offering to distribute a new class of securities.

(5) Investment funds

As a reminder, pursuant to section 9.1.1 of National Instrument 81-102 *Investment Funds* (NI 81-102), investment funds that are subject to NI 81-102 are restricted from issuing warrants or rights.

**3.11 Rights offering – issuer with a minimal connection to Canada**

It may be difficult for an issuer to determine beneficial ownership of its securities as a result of the book-based system of holding securities. We are of the view that, for the purpose of determining beneficial ownership to comply with the exemption in section 2.1.2 of NI 45-106, procedures comparable to those found in National Instrument 54-101 *Communication with Beneficial Owners of Securities of a Reporting Issuer*, or any successor instrument, are appropriate.

In section 2.1.2(1)(a), the issuer must determine the number of beneficial security holders in Canada and the number of securities held by those security holders “to the issuer’s knowledge after reasonable enquiry”. We think an issuer could generally satisfy this requirement by relying on its most recently-conducted beneficial ownership search procedures conducted for the purpose of distributing proxy material for a shareholders meeting that occurred within the last 12 months, unless the issuer has reason to believe that it would no longer meet the test in section 2.1.2 of NI 45-106. For example, if, after the previous search procedures, the issuer conducted a financing in Canada that could affect the results, they may not be able to rely on those procedures..

3. These changes become effective on December 8, 2015.

## Annex F2

### Changes to Companion Policy 41-101CP *General Prospectus Requirements*

1. *Companion Policy 41-101CP General Prospectus Requirements is changed by this Instrument.*
2. *Part 2 is changed by adding the following section:*

#### **Rights offerings**

- 2.11(1) The regulator or, in Québec, the securities regulatory authority may refuse to issue a receipt for a prospectus filed for a rights offering under which rights are issued if the rights are exercisable into convertible securities that require an additional payment by the holder on conversion and the securities underlying the convertible securities are not qualified under the prospectus. This will ensure that the remedies for misrepresentation in the prospectus are available to the person or company who pays value.
- (2) Subparagraph 8A.2(1)(d)(ii) of the Instrument provides that if there is no published market for the securities, the subscription price must be lower than fair value unless the issuer restricts all insiders from increasing their proportionate interest in the issuer through the rights offering or a stand-by commitment. Under subsection 8A.2(2), the issuer must deliver to the regulator or, in Québec, the securities regulatory authority evidence of fair value. For this purpose, the regulator will consider such things as fairness opinions, valuations and letters from registered dealers as evidence of the fair value.
- (3) Under paragraph 8A.4(b) of the Instrument, if there is a stand-by commitment for a rights offering, the issuer must deliver to the regulator or, in Québec, the securities regulatory authority evidence that the person or company providing the stand-by commitment has the financial ability to carry out the stand-by commitment. For this purpose, the regulator or, in Québec, the securities regulatory authority may consider any of the following:
  - a statement of net worth attested to by the person or company making the commitment,
  - a bank letter of credit,
  - the most recent audited financial statements of the person or company making the commitment,
  - other evidence that provides comfort to the regulator or, in Québec, the securities regulatory authority..
3. These changes become effective on December 8, 2015.