M E M O R A N D U M

From: McCullough O'Connor Irwin LLP

Date: March 24, 2014

Re: New prospectus exemption for "existing securityholders"

On March 13, 2014, the Canadian Securities Administrators ("**CSA**") published Multilateral CSA Notice 45-313 *Prospectus Exemption for Distributions to Existing Security Holders*, announcing that the securities regulatory authorities in all Canadian provinces except for Ontario and Newfoundland and Labrador (the "**Participating Jurisdictions**") have adopted a new prospectus exemption allowing issuers on the Toronto Stock Exchange, TSX Venture Exchange, and the Canadian Securities Exchange (collectively, the "**Exchanges**") to raise money by distributing securities to existing security holders (the "**Exemption**").

The stated purpose of the Exemption is to help issuers raise capital and to encourage participation by retail investors in private placement financings, while maintaining appropriate levels of investor protection.

The Exemption allows issuers with equity securities listed on the TSX, TSXV or CSE to issue listed securities to their existing security holders, subject to a number of conditions. The key conditions to the Exemption are as follows:

- The offering can consist only of a class of equity securities listed on the TSXV, TSX or CSE, or units consisting of the listed security and a warrant to acquire the listed security;

- The issuer must make the offering available to all existing security holders that hold the same type of listed security as of the record date. It is expected that the news release announcing the offering will act as this general offer to all existing shareholders. We note that issuers should allow for a reasonable amount of time between the issuance of the news release and closing;

- The issuer may only distribute securities in reliance on the Exemption to subscribers purchasing the securities as principal;

- The investor can only invest a maximum of $15,000 per issuer under the Exemption in a 12-month period, unless such investor has obtained suitability advice from a registered investment dealer;

- The issuer must be up-to-date in filing its timely and periodic disclosure documents as required under applicable securities laws;

- The issuer must issue a news release disclosing the proposed offering and information regarding the use of proceeds, among other things:

- Each investor must confirm in writing to the issuer that, as at the record date, they held the type of listed security offered under the exemption;

- The investors must be provided with certain rights of action in the event of a misrepresentation in the issuer's continuous disclosure record; and

- Although an offering document is not required, if the issuer voluntarily provides an offering document, the issuer must file the offering document with the securities regulatory authority and an investor will have certain rights of action in the event of a misrepresentation in it.

The first trade of securities issued under the Exemption will be subject to a four-month hold period and issuers will be required to file a report of exempt distribution within ten days of the closing of the offering.

While the Participating Jurisdictions do not include Ontario, on March 20, 2014 the Ontario Securities Commission published for comment four new capital raising prospectus exemptions. These include a proposed prospectus exemption for distributions to existing security holders, as well as a proposed offering memorandum exemption, family, friends and business associates exemption, and crowdfunding exemption. The comment period expires on June 18, 2014.