

Employee Share Ownership Plan - Definitions

Article 1 - Purpose of the Plan

This article of the Plan may be omitted - The following is an example which should be altered as necessary.

The purpose of this employee share ownership plan is to:

- (i) give the Company's employees an opportunity to participate in the ownership of their employer;
- (ii) encourage teamwork and cooperation among all members and units of the Company;
- (iii) improve organizational performance;
- (iv) improve the Company's ability to retain a skilled work force; and
- (v) provide an additional source of equity capital to the Company

Article 2 - Plan Definitions and Interpretations

(d) optional - there may be Securities Act implications to including Dedicated Contractors In the Plan

"Dedicated Contractor" means a proprietorship, partnership or corporation which:

- (i) provides services to the Company or a predecessor or an affiliate thereof under a contract; and
- (ii) receives not less than 90% of its total annual revenue from the contract with the Company or a predecessor or an affiliate thereof;

(e) optional

"Dedicated Contractor Employee" means an individual who is:

- (i) resident in British Columbia;
- (ii) is not a major shareholder of the Company or the affiliate; and
- (iii) has been employed by a Dedicated Contractor for at least six months for an average of at least 20 hours each week;

(u) optional - see also [Article 13](#)

“Take-Along Offer” means a third party offer made to holders of Shares, which if accepted by such holders of Shares, will result in the offeror owning more than sixty-six and two-thirds (66 2/3%) percent of the issued and outstanding Shares;

Article 4 - Share Offerings to Eligible Employees

4.2 Section 4(1)(c) of the Act allows the Company to select one of the following two purchase entitlement methods. Select one and delete the other.

Method 1 - Equal Entitlement

$$\begin{array}{l} \text{Number of Shares the Eligible} \\ \text{Employees may purchase} \end{array} = \frac{\text{Total number of Shares offered in the Offering}}{\text{Total number of Eligible Employees at the} \\ \text{commencement of the Offering}}$$

Method 2 - Pro rata Entitlement by Years of Service

$$\begin{array}{l} \text{Number of Shares} \\ \text{the Eligible Employee} \\ \text{may purchase} \end{array} = \frac{\text{EY}}{\text{TEY}} \times \text{TNS}$$

Where:

EY = the number of years, as at the commencement of the Offering, that the Eligible Employee has been employed by the Company, its predecessor or an affiliate thereof;

TEY = the total number of years, as at the commencement of the Offering, that all of the Eligible Employees have been employed by the Company, its predecessor or an affiliate thereof;

TNS = the total number of Shares offered to the Eligible Employees in the Offering.

4.3 A minimum subscription amount may not be greater than \$500 if the Plan requires full payment at the close of the Offering, or \$1,000 if payment may be made by payroll deductions over 12 months. If the Company does not want a minimum subscription amount, delete reference to it.

4.7 The under subscription procedure outlined below is optional and may be deleted. If the total number of Shares purchased by Eligible Employees in a particular Offering is less than the total

number of Shares offered to Eligible Employees in that Offering, those Shares not initially purchased will be automatically offered, according to the same formula for computation of purchase entitlement as used in the prior round, to those Eligible Employees who purchased their maximum entitlement in the prior round.

Article 5 - Payment of Purchase Price

5.2 An Eligible Employee may pay for Shares purchased under the Plan by:

- (a) lump sum payment delivered to the Company with the Purchase Form;
- (b) authorizing the Company to make the payroll deductions specified by the Eligible Employee in the Purchase Form; or
- (c) authorizing the Company to apply payments due to the Eligible Employee under a profit sharing plan.

Items (b) and (c) above are optional and may be deleted.

Article 7 - Purchase by or Transfer to Trusts

The Act permits Eligible Employees to purchase, hold and dispose of Shares using a "trust", which includes an RRSP. See section 1(2)(c) of the Act and the Act definitions of "trust" and "trust disposition".

The Company may restrict the type of trust which can be used under its Plan or not allow trusts to be used at all. Modify or delete this Article accordingly.

The Company should confirm whether or not the Shares are an eligible investment for an RRSP.

7.1 An Eligible Employee may:

- (a) purchase Shares under the Plan through a trust; and

(b) subject to any applicable transfer restrictions, transfer Shares purchased under the Plan to a trust.

7.2 For purposes of this Plan, the Eligible Employee annuitant or beneficiary of a trust will be deemed to have purchased, held or disposed of Shares that are purchased, held or disposed of by the trust.

Article 8 - General Representations and Covenants

This is a suggested set of covenants.

8.1 In respect of each offering and issuance of Shares under the Plan, the Corporation represents, warrants and covenants as follows:

- (a) the Corporation is validly existing and in good standing under the laws pursuant to which it was incorporated;
- (b) the Plan is a validly subsisting and binding obligation of the Corporation;
- (c) the Corporation is not party to, and will not become party to, any agreement which prohibits or restricts it from complying with the terms of the Plan;
- (d) the authorized share capital of the Corporation is as described in the Share Offering Document;
- (e) the Shares are of a class of shares of the Corporation that:
 - (i) carry voting rights under all circumstances;
 - (ii) are not directly restricted in their right to share in the profits of the Corporation or in the division of the Corporation's assets on dissolution or winding up; and
 - (iii) do not have any rights and restrictions prohibited by the Regulations;
- (f) the Shares to be issued under the Plan will be from the treasury of the Corporation and will not have been previously issued;
- (g) the price per Share at which Shares will be offered to Eligible Employees in any given Offering will not be greater than the Share Value in effect at that time;
- (h) all Financial Statements issued under the Plan will be prepared in accordance with generally accepted accounting principles and present fairly the financial position of the Corporation as at the date thereof and do not omit to state any material liability or financial obligation of the Corporation as at the date thereof;

- (i) since the date of the Financial Statements there has been no material adverse change in the financial position or condition of the Corporation, except as disclosed in the Share Offering Document;
- (j) the Share Offering Document discloses all outstanding options, warrants and conversion rights granted by the Corporation in respect of its securities and contains no misrepresentations;
- (k) if requested by an Employee Shareholder, the Company will promptly provide the Employee Shareholder with access to or copies of the Plan and the Company's Constitution; and
- (l) the Company will comply with the requirements of the Plan, the Act and the Regulations.

8.2 Each Eligible Employee and the Administrator will be deemed to have relied on the representations and warranties and covenants contained in this Article.

Article 9 - Use of Funds

The company has the option of either making a reference to the Act prohibitions on use of funds:

9.1 Subject to paragraph 9.2, the Corporation will not use any funds received from the issue of Shares under the Plan for any purpose prohibited by the Act or the Regulations.

9.2 The Corporation may use funds received from the issue of Shares under the Plan for one or more of the uses specified in section 6(a) of the Act if such uses are listed and described here: _____

or of describing the Act prohibitions on use of funds in full as follows:

9.1 Except if provided for in paragraph 9.2, the Corporation will not use any funds received from the issue of Shares under the Plan for

- (a) lending, other than in the ordinary course of business,
- (b) acquiring securities, other than in the ordinary course of business,

- (c) funding of all or part of the purchase by the corporation of all or a substantial portion of the assets of an existing proprietorship, partnership, joint venture, trust or corporation,
- (d) making any payment, including a payment for the purchase of goods or services and the payment of dividends and the repayment of shareholder debt, to a shareholder, director or officer of the corporation or any of its affiliates,
- (e) investing in land, unless the use of the land is incidental or ancillary to the activities of the corporation,
- (f) the purchase or redemption of previously issued share of the corporation or one of its affiliates
- (g) for purchasing services or assets provided by the Crown or an agency or corporation of the Crown, if those services or assets are to be used in all or in part in a business or activity that is the same or similar to the activity previously carried on by the Crown or the agency or corporation of the Crown,
- (h) for purchasing services or assets provided by the Crown or an agency or corporation of the Crown, if the corporation has received, either directly or indirectly, any financial assistance from any government, municipality or public authority with respect to the acquisition of those services or assets, or
- (i) as part of a transaction or series of transactions directly or indirectly involving the funding of all or part of the purchase by the corporation of any services or assets at a price that is greater than the fair market value of the services or assets purchased.

9.2 The Corporation may use funds received from the issue of Shares under the Plan for the following:

(Please state here this use if it would otherwise be in contravention of paragraph 9.1 - if there is no such use omit paragraph 9.2)

Article 11 - Share Valuation Method

METHOD 1

The Company will provide to employee investors at the end of each fiscal quarter a list of all Share Transactions during that quarter. A Share Transaction is defined as a block of shares purchased for consideration of \$XX or more by a third party acting at arms length to the Company. The share value will be determined at the end of each fiscal quarter. Prior to the Plan inception date, the Plan will

adopt the following revised share formula referencing financial information of the Company or its trading value on a public stock exchange or based on an opinion from an independent qualified person:

$$\text{Value (\$) per share} = \frac{\text{Multiplier determined by Valuation Committee} \times \text{Annual Gross Revenue}}{\text{Total number of Common Shares issued and outstanding}}$$

METHOD 2

The value of an ESOP Share on any particular Valuation Date will be calculated using the following formula:

$$\text{Value (\$) per share} = \frac{\text{Consolidated Book Value} - \text{Dividends declared or paid}}{\text{Total number of Common Shares issued and outstanding}}$$

The value of an ESOP share will be determined once each year as of XX and will be provided to Employee Shareholders within XX days. Each Share Value so determined will remain in effect until a new Share Value is calculated as of the next Valuation Date.

METHOD 3

The value of an ESOP Share on any particular Valuation Date is based on the earnings of the Company and its subsidiaries in the preceding X years plus additional share capital raised I the preceding fiscal year. The earning is based on the "maintainable" earnings of the Company. The Share Value is computed as follows:

$$\text{Value (\$) per share} = \frac{\begin{array}{l} \text{Multiplier determined by Valuation Committee} \\ \times \text{Average Adjusted After tax Annual Earnings of past X years} \\ + \text{New share capital raised in preceding fiscal year} \end{array}}{\text{Total number of Common Shares issued and outstanding}}$$

The value of an ESOP share will be determined once each year. Each Share Value so determined will remain in effect until a new Share Value is calculated as of the next Valuation Date.

METHOD 4

The Purchase Price for each ESOP Share will be that amount calculated in accordance with the following formula for the last completed fiscal year:

$$\text{Value (\$) per share} = \frac{\begin{array}{l} \text{Multiplier determined by Valuation Committee} \\ \times [(\text{Multiplier} \times \text{Retained Earnings}) + (\text{Multiplier} \times \text{Average} \\ \text{Adjusted After tax Annual Earnings of past X years})] \\ + \text{Capital Stock} \\ + \text{Contributed Surplus} \end{array}}{\text{Total number in the Capital of the Company}}$$

The number of shares in the capital of the Company will be determined on a fully diluted basis, including, without limitation, all Options earned as at the end of the last completed fiscal year.

METHOD 5

The value of an ESOP Share on any particular Valuation Date will be calculated using the following formula:

$$\text{Value (\$) per share} = \frac{\text{Adjusted Shareholder's Equity}}{\text{Total number of Common Shares issued and outstanding}}$$

WHERE:

+/- Shareholder's equity as per financial statements
+/- Difference between cost and fair market value of capital assets
+ Goodwill
- Dividends declared or paid
= Adjusted Shareholder's Equity

+/- Adjusted After-tax Annual Earnings
x Multiplier determined by Valuation Committee
= Goodwill
+/- Pre-tax earnings as per financial statements
+ Bonuses paid for tax purposes
+/- Unusual losses/(gains) on disposal of capital assets
+/- Unusual non-recurring expenses/(revenues)
+/- Difference between implicit interest rate and market interest rate on loans
from related companies
- Deferred income taxes
= Adjusted After-tax Annual Earnings

The value of an ESOP share will be determined once each year. Each Share Value so determined will remain in effect until a new Share Value is calculated as of the next Valuation Date.

Article 13 - Redemption and Sale of Shares

Set out the provisions of the Plan dealing with redemption and resale of Shares under this heading, ensuring that they comply with the requirements of the Act, the Regulations and the Corporation's Constitution. Sections 4(1)(h), (i) and (j) of the Act allow for considerable flexibility in this respect. The following is a sample set of provisions.

Example:

13.1 Subject to compliance with relevant securities laws and the Corporation's Constitution, a Shareholder may sell his or her Shares to another eligible employee of the Corporation, to a third party dealing at arm's length with the Shareholder, or to the Corporation under paragraph 13.2.

13.2 If a Shareholder wishes to sell all or a portion of their Shares and the Shares are not listed on a Canadian stock exchange, the Shareholder may deliver a Request for Redemption to the Corporation and, subject to paragraph 13.3, the Corporation will redeem the number of Shares specified therein on the next Redemption Date for a redemption price per Share equal to the Share Value as at the date of delivery of the Request for Redemption to the Corporation.

13.3 The Corporation may decline to complete a redemption pursuant to a request under paragraph 13.2 if:

- (a) the redemption would create a working capital deficiency for the Corporation;
- (b) the amount redeemed when added to the total amount of previous redemptions in the fiscal year would exceed the lesser of:
 - (i) 20% of the Corporation's retained earnings, or
 - (ii) 50% of the Corporation's net earnings after taxes for the preceding fiscal year;
- (c) the redemption would cause the Corporation to be in default of its financial obligations under a bona fide arm's length loan agreement; or
- (d) the Corporation is insolvent, or if the redemption would render the Corporation insolvent.
- Even though a Request for Redemption may be declined under this paragraph, it shall remain in effect until withdrawn or fulfilled.

13.4 if at any time the Corporation declines to complete a redemption pursuant to paragraph 13.3, the Corporation will, thereafter until all Requests for Redemption have been fulfilled, fulfill Requests for Redemption in the following order of priority:

- (a) first, Requests for Redemption made as a consequence of a Shareholder's death;

- (b) second, Requests for Redemption made as a consequence of a Shareholder's retirement;
- (c) third, Requests for Redemption made as a consequence of a Shareholder's involuntary loss of employment; and
- (d) lastly, all other Requests for Redemption;
- and, to the extent necessary, the redemptions will be completed on a pro rata basis among redemptions within the same level of priority.

13.5 On completion of a redemption under this Article 13:

- (a) the Corporation will deliver payment in full for the redeemed Shares to the Shareholder; and
- (b) the Shareholder will deliver, or cause to be delivered, to the Corporation the Share Certificate representing the Shares redeemed duly endorsed for transfer.

13.6 The Corporation may arrange for an affiliate of the Corporation to fulfill the Corporation's redemption obligations under paragraph 13.2, provided that the tests specified in paragraph 13.3 will continue to be applied in respect of the Corporation and not the affiliate.

13.7 If an Employee Shareholder's employment with the Corporation terminates for any reason, the Corporation may elect, at its sole option, to repurchase or redeem the Shares of such Employee Shareholder on the next Redemption Date.

the following section is optional - see [Article 2](#)

13.8 In the event that:

- (a) one or more Shareholder receives a Take-Along Offer;
- (b) either one or more Shareholder or the offeror (the "Offeror") provides evidence, satisfactory to the President of the Corporation, that in excess of sixty-six and two-thirds (66 2/3%) percent of the Shares of the Corporation have been or will be tendered to the Offeror;
- (c) the Offeror has indicated that it wishes to purchase all of the Shares upon the same terms and conditions as the Shares purchased; and
- (d) the price per Share being offered by the Offeror exceeds the Share Value; the President of the Corporation shall forthwith send notice of the Take-Along Offer to each Shareholder requesting that such Shareholder proceed to tender all of his or her Shares to the Offeror. Where this Section 13.8 is applicable, each Shareholder hereby undertakes and

agrees to irrevocably tender all of his or her Shares for sale to such Offeror pursuant to, and in accordance with the terms of the Take-Along Offer, provided that if such Offeror does not ultimately take-up and pay for at least sixty-six and two-thirds (66 2/3%) percent of their Shares, the Shareholders will be entitled to rescind the tendering of their Shares.

Article 14 - Price and Dilution Protections

The Administrator has determined that a registered Plan must contain some reasonable limits on dilution. This is to protect against excessive dilution which would substantially erode the share value regardless of the Company's financial performance.

The following provisions are a sample. Other provisions are possible but must offer protection against excessive dilution and be accepted by the Administrator.

14.1 The Corporation covenants with the Employee Shareholders that it will not, without prior approval of the Administrator and a majority of the Employee Shareholders:

- (a) issue shares of the Corporation outside of the Plan on price and payment terms more favourable than those under the Plan, except where the shares are issued pursuant to the exercise of a previously granted right which at the time of its grant complied with subparagraph (c) below;
- (b) redeem, purchase or otherwise acquire shares of the Corporation outside of the Plan on price and payment terms more favourable than those extended to Shareholders under the Plan;
- (c) grant rights of any kind to purchase shares of the Corporation:
 - (i) for a price per share which is less than the Share Value at the time of such grant;
 - (ii) exercisable for a term of more than 5 years;
 - (iii) such that the aggregate number of shares of the Corporation under any type of purchase option (not including rights under the Plan) granted by the Corporation to directors, officers or employees (and their associates) of the Corporation (and its affiliates) will exceed 10% of the issued shares of the Corporation; or
 - (iv) such that the aggregate number of shares of the Corporation under any type of purchase option (not including rights under the Plan) granted by the Corporation will exceed 20% of the issued shares of the Corporation.

14.2 If over time share offerings by the Corporation outside of the Plan reduce by more than 20% the percentage of shares of the Corporation held by Eligible Employees (as a group), an additional offering will be made under the Plan of a size that would allow Eligible Employees (as a group) the opportunity to maintain the percentage ownership of the Corporation they held prior to such offerings.