

# Share Offering Document

(to be amended with each additional share offering)

The Company is providing this share offering document to its employees on a confidential basis. By accepting and retaining a copy of this document, the recipient agrees to keep and hold the information it contains in confidence. Employees may, however, discuss its contents with other employees, their professional advisors and members of their immediate family. Employees should carefully review the information contained in this document before making an investment decision. No Securities Commission or similar regulatory authority has passed on the merits of the securities offered nor has it reviewed this offering document and any representation to the contrary is an offence.

Date: \_\_\_\_\_

\_\_\_\_\_  
(Name of Company)

\_\_\_\_\_  
(Address)

\_\_\_\_\_  
(the "Company") or (the "Corporation")

Share Offering Period	Shares	Price Per Share	Net Proceeds to Company <sup>(1)</sup>
<i>Start date to End date</i>	<i>Number and designation of shares</i>	\$	\$

<sup>(1)</sup> No commission or other fees are being paid in connection with this Offering.

## PURPOSE OF THE PLAN

The Company adopted its employee share ownership plan (the "Plan") on \_\_\_\_\_  
(insert date of adoption by company's directors). The purpose of the Plan is to:

- (insert purpose of the Plan)

The Plan was registered under the [Employee Investment Act](#) (British Columbia) (the "Act") on \_\_\_\_\_  
(insert registration date) so that Tax Credit Eligible Employees could receive a 20% employee investment tax credit on share purchases under the Plan. See the section headed "[Summary of Tax Assistance](#)" for details.

Eligible Employees who want to subscribe for Shares in this Offering must complete the Purchase Form accompanying this Share Offering Document and return it to \_\_\_\_\_ (insert name) by \_\_\_\_\_ (insert date).

## ELIGIBLE EMPLOYEES

Employees of the Company or its affiliates who fall into one of the following two groups and have been employed by the Company (or a predecessor or an affiliate of the Company) for a period of at least \_\_\_\_\_ (*insert 0 – 24 months*) months are eligible to purchase Shares under the Plan

1. "Tax Credit Eligible Employees" are those employees who, at the time of purchasing Shares under the Plan, are:

- (a) residents of British Columbia,
- (b) employed by the Company, or by the predecessor or an affiliate of the Company on a continuing basis for an average of at least 20 hours each week or is a Dedicated Contractor Employee or a Seasonal Part Time Employee, and

(Note: employment on a "continuing basis" includes part time employment for not less than 3 months each year for 2 or more consecutive years);

- (c) not major shareholders (as defined in the Act) of the Company.

(A "major shareholder" includes a person who, together with their relatives, trusts or companies, holds 10% or more of the Shares of the Company. Employees who may be a "major shareholder" should check the definition in section 1 of the Act).

(Dedicated Contractor Employees are defined in the Plan)

2. "Other Eligible Employees" are employees who do not qualify as Tax Credit Eligible Employees but have been defined by the Company's Board of Directors as Eligible Employees for the purpose of participating under the Plan.

An employee who is either a Tax Credit Eligible Employee or is an Other Eligible Employee is referred to in this Share Offering Document as an "Eligible Employee".

**PURCHASE ENTITLEMENT**

The Plan allows share offerings to be made to Eligible Employees from time to time. The size, price and period of the current share offering to Eligible Employees are shown on the face page.

The Plan provides that each Eligible Employee has a(n) equal right OR pro rata right based on length of service to purchase Shares.

*Describe the individual share purchase entitlement.*

There are \_\_\_\_\_ Eligible Employees, so each Eligible Employee can purchase up to \_\_\_\_\_ Shares under the Offering.

Or

The following table shows the number of Shares an Eligible Employee with a particular number of years of service can purchase under the Offering:

Years of Service	Purchase Entitlement
_____	_____
_____	_____

### **UNDER SUBSCRIPTION (if part of the Plan)**

If the total number of Shares purchased by Eligible Employees in the Offering is less than the total number of Shares offered to Eligible Employees in the Offering (an "Under Subscription"), those Shares not initially purchased (the "Remaining Shares") will be automatically offered to those Eligible Employees, on the same entitlement basis as in the first round, who have purchased the maximum number of shares allocated to them.

### **PURCHASE BY AN RRSP OR OTHER TRUST (Delete if not applicable)**

The Plan allows Eligible Employees to purchase shares through a self-directed registered retirement savings plan ("RRSP") if they wish.

*Insert reference to the shares being a qualified investment for RRSP purposes and the material tax consequences associated with making an investment in shares through an RRSP. A qualified tax advisor using up to date information should prepare this text.*

#### **Example Text:**

The shares under the Plan will qualify as an investment for a RRSP so long as the transferor of such shares is not a "designated shareholder" of the Company for the purposes of the *Income Tax Act (Canada)*.

The transfer of a share of the Company to an RRSP will result in a disposition of such share for an amount equal to its fair market value as at the date of transfer. Assuming the subject shares are capital property of an Eligible Employee, the disposition of such shares will result in a capital gain equal to the excess of the fair market value of the shares over the adjusted cost base of the shares.

The benefits of an RRSP purchase apply to all Canadian resident Eligible Employees.

The comments above are general in nature. Eligible Employees should consult with their own tax advisors regarding the above before making a decision to purchase, or transfer, Shares.

### **SUMMARY OF TAX ASSISTANCE**

The Plan is registered under the Act. The Province of British Columbia enacted the Act to encourage employee investment for the purposes of job creation, job protection and employee participation in corporate ownership. The Act encourages employee investment by providing for employee investment tax credits to be issued to Tax Credit Eligible Employees who purchase shares under registered employee share ownership plans.

A summary of the key characteristics of the tax credit is set out below:

- the credit is equal to 20% of the share purchase price paid by the Tax Credit Eligible Employee.
- the maximum credit is \$2,000 for a calendar year (per person) (= \$10,000 of investment/yr.)
- credit towards B.C. income tax otherwise payable.
- unused credits cannot be carried forward or back or be refunded in cash.

- if a share purchase under the Plan is made during the first 60 days of a calendar year, the Tax Credit Eligible Employee may claim the tax credit for that calendar year or the previous calendar year.
- the value of the tax credit will not be included in the Tax Credit Eligible Employee's income for tax purposes or reduce the adjusted cost base of the shares acquired.
- the tax credit is only available to the first purchaser of the share.

By law only persons who are Tax Credit Eligible Employees (see the section headed "[Eligible Employees](#)" for the definition of a "Tax Credit Eligible Employee") can claim a B.C. tax credit on their share purchases under the Plan. Other persons cannot claim a B.C. tax credit even though they may be eligible to buy shares under the Plan as an "Other Eligible Employee".

The Company will apply to the Province for tax credit certificates on behalf of Tax Credit Eligible Employees. The tax credit certificate is then claimed on and filed with the Tax Credit Eligible Employee's income tax return.

**A tax credit must be repaid to the Province if a Tax Credit Eligible Employee sells shares purchased under the Plan within 3 years of buying them.** The Act seeks to encourage longer term, committed investment. Therefore, tax assistance is withdrawn in the case of investments, which prove to be short term. After expiry of the 3-year period, the shares may be sold in accordance with the Plan without repayment of the tax credit.

To enable monitoring of share transactions, the Act requires that the certificates representing shares purchased by Tax Credit Eligible Employees under the Plan be held in the custody of an authorized depository during the 3 year hold period. RBC Dexia Investor Services is currently the authorized depository. The authorized depository will release the share certificates after expiry of the 3-year period.

All purchasers will receive an investment confirmation from the Company within 30 days of paying for shares purchased under the Plan.

**The extent of the Province's involvement in the Plan has been to register it under the Act to allow Tax Credit Eligible Employees to receive the tax assistance described above. The Province has not reviewed the investment merit of the shares being offered by the Company and in no way guarantees an investment in the shares. Assessment of investment merit, adequacy of the Plan, and due diligence review is entirely the responsibility of the investor.**

If the legislation governing the Employee Share Ownership program is amended or repealed, any approval provided by the Ministry in connection with the Company's Plan, including any approval relating to payment of tax credits to Tax Credit Eligible Employees who purchased shares under the Plan, could be subject to variation or cancellation by the Administrator of the Act.

## **SHARE VALUATION METHOD**

The Share Valuation Method is used to determine the price for the Shares offered to Eligible Employees and the price to be paid to Eligible Employees who wish to have the Company buy back their Shares.

The Share Valuation Method for this Plan is the following: \_\_\_\_\_

The Share Value Calculation for this Offering is as follows: \_\_\_\_\_

A copy of the most recent annual financial statements for the Company dated \_\_\_\_\_ accompanies this Share Offering Document.

Alterations to the Share Valuation Method may only be made by the Company with the prior approval of the Administrator of the Act and a majority of the Employee Shareholders.

## **REDEMPTION RIGHTS**

The Share Redemption Date is \_\_\_\_\_. (*There must be at least one date annually.*)

The tax consequences to a particular shareholder in respect of a sale of Shares will differ depending on a number of different factors, such as who the seller is (an individual or a trust) and who the purchaser is. Each shareholder should obtain his or her own independent tax advice before making a decision to sell Shares.

*Summarize the repurchase/redemption provisions in the Plan and/or the Company's Articles.*

*If any of those provisions allow the Company to decline to complete redemption requests in certain circumstances (e.g. see paragraph 13 of the [Standard Plan](#) for an example), state whether the Company has declined to complete a redemption request within the 2 year period prior to this Offering and, if so, why.*

### **Example Text:**

1. Subject to compliance with relevant securities laws and the Company's Articles, a Shareholder may sell their Shares to another eligible employee of the Company, to a third party dealing at arm's length with the Shareholder, or to the Company under paragraph 2.
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 Company and, subject to paragraph 3, the Company 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 Company.
3. The Company may decline to complete redemption pursuant to a request under paragraph 2 if:
  - (a) the redemption would create a working capital deficiency for the Company;
  - (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 Company's retained earnings, or
    - (ii) 50% of the Company's net earnings after taxes for the preceding fiscal year;
  - (c) the redemption would cause the Company to be in default of its financial obligations under a bona fide arm's length loan agreement; or
  - (d) the Company is insolvent, or if the redemption would render the Company insolvent.

Even though a Request for Redemption may be declined under this paragraph, it shall remain in effect until withdrawn or fulfilled.

4. If at any time the Company declines to complete a redemption pursuant to paragraph 3, the Company 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, redemptions will be completed on a pro rata basis among redemptions within the same level of priority.
5. On completion of a redemption:
  - (a) the Company 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 Company the Share Certificate representing the Shares redeemed duly endorsed for transfer.
6. Subject to compliance with relevant securities laws, the Company may arrange for an affiliate of the Company to fulfill the Company's redemption obligations under paragraph 2, provided that the tests specified in paragraph 3 will continue to be applied in respect of the Company and not the affiliate.
7. If an Employee Shareholder's employment with the Company terminates for any reason, the Company may elect, at its sole option, to repurchase or redeem the Shares of such Employee Shareholder on the next Redemption Date.
8. The Plan contains a provision which obligates shareholders to tender their Shares to a third party who makes an offer to acquire their Shares where:
  - (a) in excess of 66 2/3% of the Shares have been or will be tendered to such Offeror;
  - (b) the Offeror has indicated that it wishes to purchase all of the Shares upon the same terms and conditions as the Shares purchased; and
  - (c) the price per Share being offered exceeds the Share Value determined in accordance with the Share Valuation Method;

It is possible that this obligation on a Shareholder who has received tax credits (refer to heading entitled "[Summary of Tax Assistance](#)") under the Plan could result in the Shareholder being required to repay a portion or all of the tax credit(s) received, if the 3-year hold period has not expired with respect to the Shares being tendered.

## **RESTRICTIONS ON RESALE**

*Describe any applicable restrictions on resale of the shares under securities laws, the Plan or the Company's constitution.*

### **Example Text:**

The issuance of the shares to Eligible Employees by the Company is subject to the *Securities Act*, RSBC 1996 (British Columbia), which normally requires a prospectus to be prepared and delivered to the purchaser, and any trade in securities be conducted through a registered representative. Because of the time and expense associated with providing a prospectus and obtaining registration, the Company intends to rely upon exemptions from the prospectus and registration requirements contained in Sections 45(2)(10) and 74(2)(9) of the *Securities Act* (British Columbia) and *British Columbia Instrument 45-514*.

The Company hereby advises you of the resale restrictions which will apply in respect of the Shares.

If you wish to resell your Shares, it will be considered to be a "distribution" within the meaning of the *Securities Act* (British Columbia), requiring a prospectus to be prepared, unless you resell your shares to another employee of the Company or an employee of an affiliate of the Company. It is also permissible for you to resell your shares to the Company itself without preparing a prospectus.

**If the Company becomes a "reporting issuer" within the meaning of the *Securities Act* (British Columbia), you may be able to resell your Shares in the Company to persons other than the Company itself or other employees but legal advice as to whether the sale is in compliance with the *Securities Act* (British Columbia) should be obtained by yourself prior to the sale.**

The Company (*does/does not*) intend to become a public issuer within the meaning of the *Securities Act*.

## SHARE AND LOAN CAPITAL

*Describe the share and secured loan capital of the Company.*

### **Example Text:**

#### **Share Capital**

The authorized share capital of the Company consists of:

- (i) 1,000,000 common shares without par value, of which 50,000 shares are issued and outstanding; and
- (ii) 1,000,000 preferred shares with a par value of \$1 each, of which none are issued and outstanding.

#### **Common Shares**

The holders of common shares are entitled to one vote for each share held at all meetings of shareholders of the Company (other than special class meetings at which only holders of another class of shares are entitled to vote) and, subject to the rights attached to the preferred shares, are entitled to receive, pro rata with all other holders of common shares, such dividends as may be declared by the directors of the Company on the common shares and the remaining assets of the Company in the event of its liquidation, dissolution or winding-up. This is the class of share being offered to Eligible Employees under the Plan.

## Preferred Shares

The holders of preferred shares are not entitled to vote at shareholders meetings (other than meetings of preferred shareholders held in accordance with the *Business Corporations Act* (British Columbia) to approve a variation in rights attached to such preferred shares) but are entitled to receive a 10% cumulative dividend each year in priority to dividends (if any) declared on the common shares and to a prior return of paid up capital (but no more) upon the liquidation, dissolution or winding-up of the Company. The preferred shares are redeemable by the Company at its option at a price equal to their issue price. The Company has no present intention to issue any preferred shares.

## Outstanding Options, Warrants, Conversion Rights

The Company has granted the following rights to acquire common shares to the following persons:

<u>Nature of Right Holder</u>	<u>No. of Shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
Incentive Stock Option Company President	3,000 common shares	\$1.00/share	Dec.31/2008
Share Purchase Warrant XYZ Venture Capital Ltd. (issued as part of Investments Ltd. earlier investment)	5,000 common shares	\$1.00/share	Apr.30/2009
Convertible Debenture ABC Capital Co. (In year 1, \$1.00/share; in year 2, \$2.00/share)	4,000 common shares	\$1.00/share	Jan.1/2010

If all of the foregoing convertible securities were exercised into common shares of the Company, the Company would have issued and outstanding \_\_\_\_\_ common shares.

## Secured Loan Capital

The total loan capital of the Company is itemized in the financial statements dated \_\_\_\_\_ attached to this share offering document. The secured loan capital of the Company consists of a \$200,000 equipment loan from The Bank. The equipment loan bears interest at 12% per annum and is secured by a fixed and floating charge debenture over all of the current and future assets of the Company. The debenture gives The Bank the right to sell the charged assets if the Company fails to make the required loan payments. The loan is currently in good standing.

## USE OF PROCEEDS

*Briefly describe how the Company will spend the net proceeds of the Offering.*

*If the Company wishes to use any of the funds raised from the sale of shares under the Plan for any of the purposes described in section 6(a) of the Act, then each of those uses of funds must be listed and described in detail here.*

### **Example Text:**

The Company will use the net proceeds of the offering as follows (approximate amounts):



- |     |                                       |           |
|-----|---------------------------------------|-----------|
| (a) | To expand its manufacturing operation | \$100,000 |
| (b) | To reduce The Bank equipment loan     | \$ 50,000 |

If less than all of the Shares are purchased, the net proceeds shall first be used to expand the Company's manufacturing operation with the balance, if any, being applied to reduce The Bank equipment loan.

## **RIGHT TO REVIEW PLAN**

The Plan itself is a detailed legal document. Any Eligible Employee who wishes to examine the Plan, may (review the Plan OR obtain a copy from the Company) upon request.

## **SHAREHOLDER COMMUNICATION**

*Describe the employee shareholder communication provided for under the Plan and any other planned communication.*

### **Example Text:**

Under the Plan, the Company has committed to provide the following information to each employee shareholder on \_\_\_\_\_ (*insert date(s) - must be at least once a year*):

- (a) the Share Value;
- (b) the basis on which the Share Value was established;
- (c) disclosure with respect to major decisions made by the Company during the prior year which materially affect the Share Value;

and, if applicable,

- (d) a summary (including price information) of all new shares issued and options, warrants or conversion rights granted by the Corporation since the last report; and
- (e) a separate expression of the Share Value on a fully diluted basis

The Company also plans to hold meetings in each operating unit to review the quarterly results and solicit suggestions from all members of the unit for improving quality and efficiency.

Since the Company is not a "reporting issuer" under the *Securities Act* (British Columbia), the Company's obligation to provide financial disclosure to its shareholders is governed by the *Business Corporations Act* (British Columbia) which provides that the Company must place before its members at each annual general meeting a copy of its financial statements for its most recently completed financial year.

These financial statements must be prepared in accordance with generally accepted accounting principles and must include:

- (a) a balance sheet,
- (b) a statement of retained earnings,

- (c) an income statement, and
- (d) a cash flow statement,

but may be prepared in accordance with principles other than generally accepted accounting principles if

- (a) the principles used are comparable in scope and intent to generally accepted accounting principles and have been recommended for use in a foreign jurisdiction by a body, in that jurisdiction, that is comparable to the Canadian Institute of Chartered Accountants, and
- (b) the shareholders of the company, whether or not their shares otherwise carry the right to vote, resolve, by unanimous resolution, to do both of the following for that financial year:
  - (i) adopt those principles;
  - (ii) waive the appointment of an auditor otherwise required under Part 7 of the *Business Corporations Act* (British Columbia)

**BOARD OF DIRECTORS**

*State the role of the Company's Board of Directors, how directors are elected or appointed, and the names and occupations of the Company's current directors.*

**Example Text:**

The Company's constitution provides that the Board of Directors of the Company has authority over management of the Company. The Board of Directors is elected each year by the shareholders at the Company's annual general meeting. There are 5 positions on the Board presently filled by the following persons. Between annual general meetings any casual vacancies on the Board of Directors (i.e. due to resignation) may be filled by the remaining directors without the approval of the Company's shareholders.

Name of Director	Occupation (for past 5 years)
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

*(Indicate which director acts as the Company's President. In addition, indicate who acts as the Company's Corporate Secretary (who need not also be a director of the Company).)*

As a group, the Company's directors and officers hold, directly and indirectly, \_\_\_\_\_% of the Company's outstanding voting shares.

**PRINCIPAL SHAREHOLDERS**

The following persons, directly or indirectly, hold more than 10% of the Company's outstanding voting securities:

Name	No. of Shares Held	%
_____	_____	_____
_____	_____	_____
_____	_____	_____

### **ADVERSE MATERIAL CHANGES**

*Describe any adverse material change in the financial position of the Company, which has occurred since the date of the financial statements to be provided along with this Share Offering Document.*

#### **Example Text:**

Since the date of the financial statements attached to this Share Offering Document, the Company has been served with a notice of reassessment from Canada Revenue Agency requiring the payment of an additional \$32,000 in corporate income taxes for the 2005 and 2006 taxation years. Negotiations for settlement of the matter have been initiated in hopes of reducing the reassessment.

### **RECENT INFORMATION RELEASES (for reporting issuers)**

*If the Company is a "reporting issuer" under the Securities Act or is listed on any stock exchange, a copy of its most recent quarterly financial report and a copy of all press releases and material change report filings made by the Company during the past 6 months. In addition, if the Company is a "reporting issuer", describe the obligations of the Company under the Securities Act to make continuous disclosure and to deliver financial statements to its shareholders.*

#### **Example Text:**

The Company is listed on the Toronto Stock Exchange. Copies of press releases, material change reports and financial statements recently filed on public record are attached to this Share Offering Document.

Eligible Employees who wish to examine the whole of the Company's public file may do so by visiting SEDAR at [www.sedar.com](http://www.sedar.com).

### **RECENT INFORMATION RELEASES (for non reporting issuers)**

*The company must disclose here all material decisions of the company that materially affect the share value.*

## **RISK FACTORS**

*Summarize the main risks associated with the Company's business and ownership of the Company's shares.*

### **Example Text:**

#### **Marketability of Shares (for non reporting issuers)**

There is currently no formal market for the Shares, nor is it expected that one will develop. The Shares are sold under exemptions from applicable securities laws and the disposition of the Shares will require compliance with such laws. While the Company has a redemption policy with respect to the Shares, it is possible as a consequence of working capital constraints or excess demand for redemptions that the shareholders may not be able to liquidate their investments as quickly as they may desire. It is conceivable that the Shares will not be readily acceptable as collateral for a loan. Accordingly, this investment should be considered only for those investors who are able to make more than a short-term investment.

#### **Assessment of the Investment**

Prospective purchasers assessing the risks and rewards of this investment should appreciate that they will in part be relying on the good faith and expertise of management of the Company as well as the Company's continuing ability to meet its respective financial obligations with respect to its business.

#### **Competition**

The business in which the Company is involved is highly competitive and the Company competes against other businesses, which have greater financial resources than the Company.

#### **Tax Matters**

Federal and provincial tax treatment of dividends and of capital gains has an impact on the attractiveness of an investment in the Shares. The return on the investment is subject to changes in tax laws and the administrative interpretation of tax laws. There can be no assurances that tax laws will not change in the manner that will alter the consequences to an investor holding or disposing of the Shares. No advance income tax ruling has been applied for or received with respect to the income tax consequences set out in this Share Offering Document. Before making an investment, each investor should obtain his or her own independent tax advice.

## **COST SHARING FOR EMPLOYEE GROUPS**

The Act allows for Provincial cost sharing assistance to employee groups that obtain independent professional advice relating to the negotiation, evaluation and implementation of a registered employee share ownership plan. Reimbursement of 50% of eligible costs up to \$2,500 may be applied for in any calendar year. For more information about cost sharing for employee groups, contact the Investment Capital Branch of the Ministry of Economic Development at 1-800-665-6597.

**CERTIFICATE**

This document contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to prevent a statement that is made from being false or misleading in the circumstances in which it was made.

Dated: \_\_\_\_\_

\_\_\_\_\_  
*(Signature of Chief Executive Officer)*

\_\_\_\_\_  
*(Signature of Chief Financial Officer)*