

POLICY 4.3

SHARES FOR DEBT

Scope of Policy

An Issuer may be unable or unwilling to satisfy its debts or pay for services in cash. In those circumstances, the Issuer may negotiate settlement of its debt or arrange to pay service providers in securities.

The main headings in this Policy are:

1. Interpretation
2. General
3. Requirements and Restrictions
4. Filing Requirements – Shares for Debt
5. Shares for Services
6. Filing Requirements – Shares for Services

1. Interpretation

1.1 In this Policy:

“Agreement Date” means the date that an agreement, commitment, or understanding is reached to issue Shares for Debt.

“Shares for Debt” refers to the issuance of securities by an Issuer to settle debt that would normally be settled through a cash payment.

“Shares for Services” refers to an issuance of securities pursuant to an agreement by the Issuer to pay for services to be provided to the Issuer in securities rather than cash.

2. General

2.1 A Shares for Debt or Shares for Services transaction must be undertaken in accordance with applicable exemptions under Securities Laws and the requirements of this Policy.

2.2 A Shares for Debt or Shares for Services transaction must be accepted by the Exchange before any securities are issued.

3. Requirements and Restrictions

- 3.1 If the Issuer intends to settle debt that was incurred for, and is currently payable in cash, the Issuer must confirm that:
- (a) it has no cash on hand or no immediate source of cash;
 - (b) if it has cash on hand to pay the debt:
 - (i) it is proposing to issue the securities in order to preserve its cash; or
 - (ii) its cash on hand is otherwise committed.
- 3.2 Non-Arm's Length Parties may only receive shares as settlement for debt. Warrants may not be issued in addition to the share settlement on the portion of the debt where a Non-Arm's Length Party is a creditor.

Pricing

- 3.3 The deemed price per security at which the debt is converted must be not less than the Discounted Market Price as determined by the date of the news release.
- 3.4 If a securities consolidation is proposed or planned as part of a debt settlement restructuring plan, then the minimum deemed issuance price of any post consolidation securities to be issued as part of such plan must be the Discounted Market Price (pre-announcement) multiplied by the consolidation ratio.

Disclosure

- 3.5 The Exchange considers Shares for Debt and Shares for Services transactions to be material. The Issuer must, therefore, issue a news release on the Agreement Date.
- 3.6 If an Issuer undertakes a Shares for Debt or Shares for Services transaction that forms a part of a COB or RTO, it must disclose this information in the news release disclosing the transaction.

Shareholder Approval

- 3.7 The Issuer must obtain disinterested shareholder approval where the Shares for Debt transaction will result in the creation of a new Control Person of the Issuer.
- 3.8 When seeking approval, the Issuer must provide the following information to shareholders:
- (a). the name of the new Control Person, as applicable; and
 - (b) any other material details of the applicable transaction.

Settlement of Debt Purchased at a Discount – Assignment of Debt

- 3.9 If debt that is discounted by more than 50% is settled at the Market Price or Discounted Market Price, the Exchange may impose Resale Restrictions on the securities issued pursuant to the debt settlement.
- 3.10 Arm's length parties that become Insiders as a result of a purchase of discounted debt may be subject to escrow or Resale Restrictions on the securities issued pursuant to the debt settlement.
- 3.11 Non-Arm's Length Parties that purchase debt from a creditor at a discounted rate are only eligible to settle such debt with the Issuer based on the amount they paid to acquire the debt, rather than the principal amount of the debt.

Denial of Acceptance

- 3.12 The Exchange may deny acceptance of any Shares for Debt transaction if:
- (a) the amount of debt is unsubstantiated by the financial statements or any other satisfactory evidence;
 - (b) the debt is alleged to be an accrued account but is not accounted for in the historical financial statements;
 - (c) the Issuer has conducted a series of Shares for Debt transactions and appears to use this procedure to raise funds rather than using other conventional methods available to it;
 - (d) the proposed agreement calls for the settlement of future debts by an issuance of securities at the Discounted Market Price in effect on the Agreement Date. The issuance of Shares for Debt must not be a pre-determined arrangement except in accord with section 5 of this Policy;
 - (e) Warrants are proposed to be issued to a Non-Arm's Length Party as part of a Shares for Debt transaction;
 - (f) the debt relates to management fees of more than \$2,500 per month; or
 - (g) the debt arises from an Investor Relations services contract.

4. Filing Requirements - Shares for Debt

- 4.1 An Issuer must make an application to the Exchange for acceptance of a Shares for Debt transaction, within 30 days of the Agreement Date.
- 4.2 An application must be made in accordance with the Shares for Debt Filing Form (Form 4E) and must include:

- (a) the documents required to accompany Form 4E, and
- (b) the applicable fee as prescribed by Policy 1.3 – *Schedule of Fees*.

5. Shares for Services

- 5.1 The Exchange will consider an application by an Issuer to compensate a Person providing ongoing services to the Issuer in securities rather than cash provided that:
- (a) the transaction is in compliance with applicable corporate laws and Securities Laws;
 - (b) the securities are not issued until the services have been performed; and
 - (c) the deemed price of the securities to be issued is determined after the date the services are provided to the Issuer.

6. Filing Requirements – Shares for Services

Initial Filing

- 6.1 An Issuer proposing to issue Shares for Services must file:
- (a) a copy of the agreement with the Exchange. The agreement must include a provision indicating that the deemed price of the securities to be issued will be determined after the date services are provided to the Issuer; and
 - (b) the applicable fee as prescribed by Policy 1.3 – *Schedule of Fees*.

Subsequent Filings

- 6.2 After the Shares for Services agreement has been accepted by the Exchange, the Issuer must file the following materials with the Exchange upon every issuance of securities under the agreement:
- (a) a notice letter:
 - (i) indicating the number of securities and the deemed price per security to issued in exchange for the services that have been provided to the Issuer;
 - (ii) confirming that the securities issuance has not created a new Control Person of the Issuer; and
 - (b) the applicable fee, as prescribed by Policy 1.3 – *Schedule of Fees*.
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