

2012 BCSECCOM 167

April 25, 2012

Headnote

Multilateral Instrument 11-102 *Passport System* and National Policy 11-203 *Process for Exemptive Relief Applications in Multiple Jurisdictions* – National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*, sections 3.3(a) and 5.1 - An issuer requires relief from the requirement that financial statements required by securities legislation to be audited must be accompanied by an auditor's report that does not contain a reservation - The auditors were not in attendance at the physical inventory taking and not able to satisfy themselves by other auditing procedures as to the opening inventory quantities; the reservation relates to the financial statements of a non-reporting issuer; the issuer is providing a subsequent audited period of at least six months for which the auditor's report will not contain a reservation; the issuer's business is not seasonal

Applicable British Columbia Provisions

National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*, sections 3.3(a) and 5.1

In the Matter of
the Securities Legislation of
British Columbia
(the Jurisdiction)

and

In the Matter of
the Process for Exemptive Relief in Multiple Jurisdictions

and

In the Matter of
Red Pine Investment Ltd.
(the Filer)

Decision

Background

- ¶ 1 The principal regulator in the Jurisdiction has received an application from the Filers for a decision under the securities legislation of the Jurisdiction of the principal regulator (the Legislation) that the requirement that financial statements

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that are required by the Legislation to be audited must be accompanied by an auditor's report that does not contain a reservation does not apply to the audited financial statements of the Target (defined below) for the financial year ended December 31, 2009 (the Exemption Sought).

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a passport application):

- (a) the British Columbia Securities Commission is the principal regulator for this application, and
- (b) the Filers have provided notice that section 4.7(1) of Multilateral Instrument 11-102 *Passport System* (MI 11-102) is intended to be relied upon in Alberta.

Interpretation

- ¶ 2 Terms defined in National Instrument 14-101 *Definitions* and MI 11-102 have the same meaning if used in this decision, unless otherwise defined.

Representations

- ¶ 3 This decision is based on the following facts represented by the Filer:
- 1. the Filer was incorporated under the *Business Corporations Act* (British Columbia) on July 30, 2008; the head office of the Filer is located in British Columbia;
 - 2. the Filer is a "reporting issuer" within the meaning of applicable securities legislation in British Columbia and Alberta; the Filer's common shares are listed on the TSX Venture Exchange (the TSX-V);
 - 3. the Filer is a capital pool company or "CPC" as defined in Policy 2.4 of the TSX-V Corporate Finance Manual;
 - 4. the Filer entered into a letter of intent on October 12, 2011 with Seymour Metal Holdings Inc. (the Target) to acquire all of the issued and outstanding shares of the Target in exchange for the issuance by the Filer of its securities; the acquisition will constitute the Filer's qualifying transaction, as such term is defined in the TSX-V Corporate Finance Manual (the Qualifying Transaction);
 - 5. the Target was incorporated on January 27, 2010 pursuant to the laws of the British Virgin Islands; the Target company holds 100% of the issued and

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outstanding shares of a Hong Kong company called Vanadium Resources Ltd. (VRL), which in turn holds 90% of the issued and outstanding shares of Xichuan Yudian Vanadium Resources Co. Ltd., a company incorporated under the laws of China (the Predecessor);

6. the Predecessor was incorporated on June 8, 2007 under the laws of China; VRL was incorporated on February 18, 2010 under the laws of Hong Kong as a wholly owned subsidiary of the Target; on December 27, 2010, VRL acquired a 90% interest in the Predecessor from Henan Xichuan Yudian Chemical & Metallurgical Co. Ltd. (Yudian Chemical), and at the time of such transfer, the Target, VRL and Yudian Chemical were under common control;
7. as the Target, VRL and Yudian Chemical were under common control, the Target's audited financial statements for the years ended December 31, 2011, 2010 and 2009 have been presented for these periods on a continuity of interests basis to reflect the financial position and results of the operations as if the Target, VRL and the Predecessor had been combined since their inception;
8. the Target's principal business is to, through its subsidiaries, operate a mining and manufacturing facility in Xichuan, Henan Province, People's Republic of China (PRC) to extract vanadium ore for the production and sale of vanadium concentrate for industrial usages; the Target's business is not seasonal;
9. the Target is not a "reporting issuer" within the meaning of applicable securities legislation in any jurisdiction of Canada; the Target's common shares are not listed on any stock exchange or quotation system;
10. the Target is a foreign issuer for the purposes of NI 52-107 and has a financial year end of December 31;
11. completion of the Qualifying Transaction is subject to, among other things, the approval of the TSX-V; approval of the Qualifying Transaction by the shareholders of the Filer is not required under the policies of the TSX-V;
12. in accordance with the policies of the TSX-V, the Filer must file a CPC Filing Statement (as such term is defined in the policies of the TSX-V) with the TSX-V and with the securities regulatory authorities in British Columbia and Alberta once the TSX-V approves the CPC Filing Statement in its final form;
13. the CPC Filing Statement will include the following financial statements:

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- (a) audited annual financial statements of the Filer for the years ended March 31, 2011 and March 31, 2010;
 - (b) unaudited interim financial statements of the Filer for the nine months ended December 31, 2011;
 - (c) audited annual financial statements of the Target for the years ended December 31, 2011, December 31, 2010 and December 31, 2009;
 - (d) pro forma consolidated balance sheet of the Filer and the Target as at December 31, 2011;
14. upon the completion of the Qualifying Transaction, the Target will become a subsidiary of the Filer and the Filer will continue to carry on its business through the Target (the Resulting Issuer); the Qualifying Transaction will be a reverse acquisition; although for legal purposes the Filer will be the acquirer, for accounting purposes the Target is the acquirer; accordingly, the consolidated financial statements of the Resulting Issuer will be those of the accounting acquirer, namely the Target; the fiscal year end of the Resulting Issuer will be December 31;
15. Manning Elliott LLP (the Auditor) were appointed as auditors of the Target during the 2009 financial year and were not able to observe the counting of physical inventory quantities as at December 31, 2008; the Auditors were able to satisfy themselves regarding the reasonability of the inventory balance as at December 31, 2009, December 31, 2010 and December 31, 2011;
16. since opening and closing inventories enter into the determination of the results of operations and cash flows, the Auditors were not able to determine whether adjustments to cost of sales, gross profit, net income, cash flows from operating activities and opening retained earnings (deficit) for the year ended December 31, 2009 were necessary;
17. as a result, the Auditors expressed a reservation of opinion on the Target's financial statements for the year ended December 31, 2009 (the Inventory Reservation); the Auditors' report for the financial statements of the Target for the years ended December 31, 2010 and December 31, 2011 does not contain a reservation;
18. due to the Inventory Reservation, the Filer will not be able to complete its Qualifying Transaction as proposed unless the Exemption Sought is granted; and

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19. the Filer and the Target are not in default of securities legislation in any jurisdiction in Canada.

Decision

- ¶ 4 The principal regulator is satisfied that the decision meets the test set out in the Legislation for the principal regulator to make the decision.

The decision of the principal regulator under the Legislation is that the Exemption Sought is granted provided that the only reservation on the Target's financial statements for the years ended December 31, 2011, December 31, 2010 and December 31, 2009 is the Inventory Reservation with respect to the year ended December 31, 2009.

Andrew S. Richardson, CA
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British Columbia Securities Commission