

2004 BCSECCOM 449

Headnote

Mutual Reliance Review System for Exemptive Relief Application – relief from the requirement to reconcile the financial statements of a proposed acquired business to Canadian GAAP and GAAS and to prepare pro forma financial statements using Canadian GAAP and GAAS – issuer has filed its financial statements prepared using US GAAP and GAAS, and proposed acquired business’s financial statements are prepared using US GAAP and GAAS – the pro forma financial statements will be reconciled to Canadian GAAP

Applicable British Columbia Provisions

National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*, ss. 6.1, 6.2, 7.1 and 9.1

**IN THE MATTER OF THE SECURITIES LEGISLATION OF
BRITISH COLUMBIA, ALBERTA, SASKATCHEWAN, MANITOBA,
ONTARIO, QUÉBEC, NOVA SCOTIA, NEWFOUNDLAND AND
LABRADOR AND NEW BRUNSWICK**

AND

**IN THE MATTER OF THE MUTUAL RELIANCE REVIEW SYSTEM
FOR EXEMPTIVE RELIEF APPLICATIONS**

AND

**IN THE MATTER OF QLT INC., ATRIX LABORATORIES, INC. AND
ASPEN ACQUISITION CORP.**

MRRS DECISION DOCUMENT

- ¶ 1 WHEREAS the local securities regulatory authority or regulator (the “Decision Maker”) in each of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, Nova Scotia, Newfoundland and Labrador, and New Brunswick (collectively, the “Jurisdictions”) has received an application from QLT Inc. (“QLT”) for a decision under the securities legislation of the Jurisdictions (the “Legislation”) that QLT be exempt from the following requirements in connection with a joint management information circular and proxy statement (the “Circular”) being prepared for an upcoming special meeting of holders of common shares of QLT (the “QLT Common Shares”) to consider the issuance of QLT Common Shares in connection with a merger (the “Merger”) involving QLT, Atrix Laboratories, Inc. (“Atrix”) and Aspen Acquisition Corp. (“Merger Sub”), a wholly-owned subsidiary of QLT:

2004 BCSECCOM 449

- (a) the requirement that historical financial statements of Atrix (the “Atrix Statements”) prepared in accordance with U.S. GAAP (as defined in National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*) be reconciled to Canadian GAAP and that the notes to the Atrix Statements must (i) explain, and quantify the effect of, material differences between Canadian GAAP and U.S. GAAP that relate to recognition, measurement and presentation; and (ii) provide disclosure consistent with Canadian GAAP to the extent not already reflected in the Atrix Statements;
- (b) the requirement that auditors’ reports on the Atrix Statements disclose any material differences in the form and content of such auditors’ reports as compared to a Canadian auditors’ report and confirming that the auditing standards applied are substantially equivalent to Canadian generally accepted auditing standards (“Canadian GAAS”);
- (c) the requirement that all management discussion and analysis (“MD&A”) relating to the Atrix Statements provide a restatement of those parts of the MD&A that would read differently if the MD&A were based on statements prepared in accordance with Canadian GAAP, and the requirements that the MD&A provide a cross-reference to the notes in the financial statements that reconcile the differences between U.S. GAAP and Canadian GAAP; and
- (d) the requirement that pro forma financial statements showing the combination of QLT and Atrix be prepared in accordance with Canadian GAAP;

(collectively, the “GAAP and GAAS Reconciliation Requirements”);

- ¶ 2 AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (the “System”), the British Columbia Securities Commission is the principal regulator for this application;
- ¶ 3 AND WHEREAS unless otherwise defined, the terms herein have the meaning set out in National Instrument 13-101 *Definitions* or in Agence nationale d’encadrement du secteur financier Notice 14-101;
- ¶ 4 AND WHEREAS QLT has represented to the Decision Makers that:
 - 1. QLT exists under the *Business Corporations Act* (British Columbia) and has its executive office in Vancouver, British Columbia;

2004 BCSECCOM 449

2. the authorized capital of QLT is 500 million QLT Common Shares and five million First Preference shares issuable in series, of which 500,000 are designated as Series "A" First Preference shares, 500,000 are designated as Series "B" First Preference shares, 500,000 are designated as Series "C" 8% First Preference shares and 500,000 are designated as Series "D" First Preference shares;
3. QLT is a reporting issuer or its equivalent in each of the Jurisdictions;
4. QLT is not on the list of defaulting reporting issuers maintained under the Legislation, where applicable;
5. the QLT Common Shares trade on the Toronto Stock Exchange and NASDAQ National Market ("NASDAQ");
6. in Canada, QLT files two sets of financial statements, one prepared in accordance with Canadian GAAP, and one prepared in accordance with U.S. GAAP;
7. Atrix is currently subject to the 1934 Act and has its common stock traded on NASDAQ;
8. Merger Sub was incorporated for the purposes of facilitating the Merger;
9. neither Atrix nor Merger Sub are reporting issuers or the equivalent under the Legislation;
10. under the terms of a merger agreement between QLT, Atrix and Merger Sub dated June 14, 2004, Merger Sub will merge with Atrix, and the surviving entity will be a wholly-owned subsidiary of QLT;
11. to effect the Merger, the stockholders of Atrix will receive QLT Common Shares and cash for their shares in Atrix, except certain excluded shares, and Atrix's optionholders and warrant holders will receive options or warrants, as applicable, of QLT;
12. the Merger is subject to approval by shareholders of QLT and stockholders of Atrix, regulatory approval and other customary closing conditions;
13. the Circular must include or incorporate by reference information sufficient to enable a QLT shareholder to form a reasoned judgement concerning the

2004 BCSECCOM 449

Merger, including prospectus-level disclosure for each of QLT and Atrix and the securities being exchanged and issued;

14. the Circular will include or incorporate by reference the following historical and pro forma financial statements:

- (a) audited financial statements for the years ended December 31, 2003, 2002 and 2001 of:
 - (i) QLT prepared in accordance with Canadian GAAP, audited in accordance with Canadian GAAS and accompanied by an auditor's report prepared in accordance with Canadian GAAS; and
 - (ii) QLT prepared in accordance with US GAAP, audited in accordance with United States generally accepted auditing standards ("US GAAS") and accompanied by an auditor's report prepared under US GAAS; and
 - (iii) Atrix prepared in accordance with U.S. GAAP, audited in accordance with US GAAS and accompanied by an auditor's report prepared under US GAAS;
- (b) interim unaudited financial statements for the 3 months ended March 31, 2004 of:
 - (i) QLT prepared in accordance with Canadian GAAP and also in accordance with U.S. GAAP; and
 - (ii) Atrix prepared in accordance with U.S. GAAP;
- (c) unaudited pro forma financial statements of QLT, together with a compilation report thereon, which include:
 - (i) a balance sheet as of March 31, 2004 showing the combination of QLT and Atrix; and
 - (ii) statement of operations for the three months ended March 31, 2004 and the year ended December 31, 2003,

prepared in accordance with U.S. GAAP and reconciled to Canadian GAAP;

15. it is expected that the Atrix Common Shares will be delisted from NASDAQ shortly after the Merger; and

2004 BCSECCOM 449

16. QLT will apply to list the QLT Common Shares issued in connection with the Merger on NASDAQ and the Toronto Stock Exchange;

- ¶ 5 AND WHEREAS under the System, this MRRS Decision Document evidences the decision of each of the Decision Makers (collectively, the “Decision”);
- ¶ 6 AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;
- ¶ 7 THE DECISION of each of the Decision Makers under the Legislation is that the GAAP and GAAS Reconciliation Requirements do not apply to QLT, in respect of the Circular, provided that the Circular includes or incorporates by reference the financial statements described in representation 14.
- ¶ 8 DATED July 28, 2004.

Brenda Leong
Director