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Headnote

Mutual Reliance Review System for Exemptive Relief Applications - relief from the requirement to have a current AIF (as defined in MI 45-102) to permit an issuer that has not completed a financial year to rely on its final prospectus under certain conditions

Applicable British Columbia Provisions

Multilateral Instrument 45-102 - *Resale of Securities*, s. 4.1

**IN THE MATTER OF THE SECURITIES LEGISLATION OF ALBERTA,
BRITISH COLUMBIA, SASKATCHEWAN, MANITOBA, ONTARIO,
NEW BRUNSWICK, PRINCE EDWARD ISLAND, NEWFOUNDLAND
AND LABRADOR, NOVA SCOTIA, THE YUKON TERRITORY,
THE NUNAVUT TERRITORY AND THE NORTHWEST TERRITORIES**

AND

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

AND

IN THE MATTER OF PARAMOUNT ENERGY TRUST

MRRS DECISION DOCUMENT

1. WHEREAS the local securities regulatory authority or regulator (the “Decision Maker”) in each of Alberta, British Columbia, Saskatchewan, Manitoba, Ontario, New Brunswick, Prince Edward Island, Newfoundland and Labrador, Nova Scotia, the Yukon Territory, the Nunavut Territory and the Northwest Territories (the “Jurisdictions”) have received an application from Paramount Energy Trust (“PET” or the “Applicant”) for a decision under the securities legislation of the Jurisdictions (the “Legislation”) that the requirement contained in the Legislation to have a “current AIF” as defined in Multilateral Instrument 45-102 Resale of Securities (the “Instrument”) filed on SEDAR to be a “Qualifying Issuer” under the Instrument shall not apply to the Applicant;
2. AND WHEREAS any terms used herein that are defined in National Instrument 14-101 shall, unless otherwise defined herein, have the meanings herein as provided in that National Instrument;

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3. AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (the “MRRS”), the Alberta Securities Commission is the principal regulator for this application;
4. AND WHEREAS PET has represented to the Decision Makers that:
 - 4.1 Paramount Resources Ltd. (“PRL”) was incorporated under the laws of the Province of Alberta on February 14, 1978. PRL is a “reporting issuer”, or equivalent thereof, in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec and Nova Scotia. PRL’s authorized capital consists of an unlimited number of common shares of which 59,458,600 common shares issued and outstanding. PRL is not in default of the Legislation in any jurisdiction in which it is a reporting issuer or the equivalent thereof;
 - 4.2 PET is an unincorporated trust established on June 28, 2002 under the laws of the Province of Alberta pursuant to a trust indenture among Computershare Trust Company of Canada as trustee, BMO Nesbitt Burns Inc. as settlor, and Paramount Energy Operating Corp, which indenture was subsequently amended and restated effective as of August 1, 2002 (the “PET Trust Indenture”). As at the date of the application of PET, one trust unit of PET (a “Unit”) was outstanding and is held by PRL and the assets of PET consists of 100% ownership of the Administrator (as defined below), the ownership of 100% of the beneficial interests of POT (as defined below) and its organizational funding of \$100;
 - 4.3 POT is an unincorporated trust established on June 28, 2002 under the laws of the Province of Alberta pursuant to a trust indenture between Paramount Energy Operating Corp. as trustee and CIBC World Markets Inc. as settlor, with PET as its sole beneficiary, which indenture was subsequently amended and restated effective as of August 1, 2002 (the “POT Trust Indenture”). As at the date of the application, POT’s assets consist of its organizational funding of \$100 and certain furniture, fixtures and computers acquired from a subsidiary of PRL. POT’s business is acquiring, developing and owning oil and natural gas properties;
 - 4.4 Paramount Energy Operating Corp. (the “Administrator”) was incorporated on June 28, 2002 under the ABCA. All of the shares of the Administrator are beneficially held by PET. As trustee of POT, the Administrator will administer, manage and operate the oil and gas

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business of POT. Holders of Units (“Unitholders”) will have the right to elect the board of directors of the Administrator;

- 4.5 PET has filed with the securities regulators of all of the provinces and territories in Canada, a preliminary prospectus dated August 15, 2002. On November 6, 2002, PET filed an amended and restated preliminary prospectus and on December 9, 2002, PET filed a further amended and restated preliminary prospectus (the “Amended Preliminary Prospectus”). The final version of the Amended Preliminary Prospectus (the “Final Prospectus”) will, when finalized and the MRRS decision document with respect thereto is issued by the applicable regulatory authorities, qualify and register (i) the Units of PET to be distributed by PRL pursuant to the Dividend (as defined below), (ii) rights to be issued by PET to its Unitholders to purchase further Units, and (iii) the Units issuable upon the exercise of such rights;
- 4.6 upon the issuance of the MRRS decision document with respect to the Final Prospectus by the applicable regulatory authorities, PRL and PET will complete the structuring of the business of PET and POT (the “Trust Structuring”) as follows:
 - 4.6.1 PRL will convey to POT, pursuant to the terms of an agreement (the “Sale Agreement”), all of PRL’s interest in approximately \$81 million of natural gas properties and facilities;
 - 4.6.2 PRL and POT will execute an agreement (the “Take-Up Agreement”) which will require PRL to sell and transfer, and will obligate POT to purchase up to 100% of PRL’s interest in approximately \$220 million of further natural gas properties and facilities (the “Additional Assets”);
 - 4.6.3 POT and PET will enter into a royalty agreement, pursuant to which POT will grant a royalty of 99% of POT’s net revenue from its oil and gas properties. PET will pay for this royalty by issuing promissory notes. POT will direct PET to pay and issue those promissory notes to PRL in satisfaction of indebtedness that POT will owe to PRL for the purchase of the Initial Assets;
 - 4.6.4 PET will issue 6,636,045 Units to PRL in repayment of certain indebtedness under those promissory note; and

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- 4.6.5 PET will purchase from PRL the remaining indebtedness that POT owes to PRL in exchange for the issuance to PRL of an additional 3,273,721 Trust Units;
- 4.7 following completion of the transactions referred to in 4.6 above, PRL's board of directors will declare and pay a dividend-in-kind on the common shares of PRL (the "Dividend"), payable by the distribution of the 9,909,767 Units that PRL will hold at that time;
- 4.8 after PRL's distribution of the Units pursuant to the Dividend, PET will issue to holders of Units of record on a record date to be set at that time rights (the "Rights") to subscribe for additional Units on the basis of three Rights for each Unit held on such record date (the "Rights Offering");
- 4.9 under the terms of the Take-Up Agreement, POT is obligated to apply the gross proceeds of the Rights Offering, along with the proceeds of available bank financing that PET has arranged, to acquire up to 100% of PRL's interest in the Additional Assets. Assuming all of the Rights are exercised and PET's lenders advance the full amount under PET's proposed credit facility, there will be sufficient funds available to POT to acquire 100% of PRL's interest in the Additional Assets. If less than all of the Rights are exercised or PET's lenders do not loan to PET its requested loan, POT will use the gross proceeds of the Rights Offering together with the amount PET's lenders are willing to advance to acquire as much of a percentage working interest as POT is able in the Additional Assets;
- 4.10 application has been made to the Toronto Stock Exchange (the "TSX") for the approval of the listing of (i) the Units to be distributed by PRL pursuant to the Dividend, (ii) the Rights, and (iii) the Units issuable on the exercise thereof. The TSX has conditionally approved the listing of these securities subject to PET fulfilling all of the requirements of the TSX;
- 4.11 C.H. Riddell, the Chairman and Chief Executive Officer of PRL, and his immediate family (the "C.H. Riddell Family") directly and indirectly own or exercise control and direction over 29,590,727 common shares of PRL (49.77% of the outstanding common shares of PRL);
- 4.12 assuming the exercise of certain stock options to acquire PRL common shares held by certain members of the C.H. Riddell Family, upon payment of the Dividend, the C.H. Riddell Family will beneficially own

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or exercise control or direction over, directly or indirectly, 4,931,787 Units (49.77% of the issued and outstanding Units). The members of the C.H. Riddell Family have indicated their intention to subscribe for up to their full pro-rata allotment of Units under the Rights Offering. In addition, POG and the C.H. Riddell Family have indicated that they may exercise the additional subscription privilege under the Rights Offering to acquire further Units under the Rights Offering if it is available to them. Assuming the exercise of all Rights but without the exercise of Rights under the additional subscription privilege, the C.H. Riddell Family, will exercise control and direction, directly or indirectly, over 19,727,148 Trust Units (49.77% of the issued and outstanding Trust Units). In the event that less than all of the Rights are exercised, this percentage amount will increase;

- 4.13 at the time that (i) PRL distributes the Trust Units pursuant to the Dividend and (ii) PET issues Trust Units pursuant to the exercise of Rights under the Rights Offering, PET will satisfy all of the requirements of the definition of “Qualifying Issuer” under the Instrument other than the requirement to have filed a “current AIF”;
- 4.14 the Final Prospectus of PET will not constitute a “current AIF” under section 1.1(f) of the definition of “Current AIF” in the Instrument as it will not contain audited financial statements for PET’s most recently completed financial year;
- 4.15 the current version of the Amended Preliminary Prospectus does, and the Final Prospectus will, contain the following financial statements:
 - 4.15.1 audited consolidated balance sheet of PET as at September 30, 2002 and the audited consolidated statements of operations and deficit and of cash flows for the periods from June 28, 2002 to September 30, 2002;
 - 4.15.2 audited financial statements of PRL pertaining to the “Northeast Alberta Properties” for the years ended December 31, 2001, 2000 and 1999 as well as unaudited financial statements of PRL with respect to the same for the nine months ended September 30, 2002 and 2001 (the “Northeast Financial Statements”). These financial statements are with respect to the operations of PRL for its oil and gas assets in its core Northeast Alberta area. These oil and gas assets consist of the Initial Assets and the Additional Assets that are proposed to be acquired

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by PET from PRL pursuant to the Transactions referred to above and certain minor properties not to be acquired by PET;

4.15.3 a proforma consolidated balance sheet and proforma consolidated statement of earnings of PET as at, and for the nine months ended, September 30, 2002 and a proforma consolidated statement of earnings of PET for the year ended December 31, 2001 which show the financial position of PET on a proforma basis after the acquisition of the Initial Assets and the acquisition of varying percentages of the Additional Assets; and

4.15.4 an audited financial forecast of PET for the year ended December 31, 2003;

4.16 the management's discussion and analysis disclosure in the Amended Preliminary Prospectus contains, and in the Final Prospectus will contain, management's discussion and analysis disclosure with respect to the Northeast Alberta Properties including a year over year financial results comparison for the Northeast Alberta Properties for the periods covered in the Northeast Financial Statements;

4.17 the Amended Preliminary Prospectus does, and the Final Prospectus will, contain operational disclosure for the Initial Assets and the Additional Assets for the past three years during which those assets were operated and owned by PRL;

5. AND WHEREAS under the MRRS this MRRS Decision Document evidences the decision of each Decision Maker (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 the Decision Makers under the Legislation is that:

7.1 the requirement in the Legislation to have a "current AIF" (as that term is defined in the Instrument) filed on SEDAR in order to be a "Qualifying Issuer" shall not apply to the Applicant;

provided that:

7.2 the Applicant files a notice on SEDAR advising that it has filed the Final Prospectus as an alternative form of annual information form and

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identifying the SEDAR project number under which the Final Prospectus is filed;

- 7.3 the Applicant files a Form 45-102F2 on or before the tenth day after the distribution date of any securities by it as referred to in Section 2.7(2) and (3) of the Instrument certifying that it is a Qualifying Issuer as of the distribution date except for the requirement that it have a current AIF;
- 7.4 the selling securityholder in the case of a control distribution of securities of the Applicant as referred to in Section 2.7(2) of the Instrument, files a Form 45-102F2 on or before the tenth day after the distribution date of such securities pursuant to such control distribution certifying that the Applicant is a Qualifying Issuer as of the distribution date except for the requirement that the Applicant have a current AIF; and
- 7.5 this Decision expires 140 days after the Applicant's financial year ended December 31, 2003.

DATED this 20th day of January, 2003

Glenda A. Campbell, Q.C., Vice-Chair
David W. Betts, Member