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October 22, 2007

Headnote

Mutual Reliance Review System for Exemptive Relief Applications – *Securities Act* s. 114(2) Issuer Bids - Exemption from Issuer Bid Requirements - Dutch auction - An issuer conducting an issuer bid under a modified dutch auction procedure requires relief from the requirement to disclose in its bid circular that it will take up and pay for shares on a pro rata basis and from the requirement to disclose the exact number of shares it intends to purchase under the bid - The issuer is making an issuer bid under a modified Dutch auction; it cannot disclose that it will take up and pay for shares deposited on a pro rata basis or the total number of shares it will acquire under the bid; the issuer is disclosing the maximum amount it will spend under the bid, and the minimum and maximum amount it will pay for shares tendered; as a result, the potential for confusion is minimal

Applicable British Columbia Provisions

Securities Act, R.S.B.C. 1996, c. 418, ss. 105(g), 114(2)
Form 62-903F, Item 2 & Item 9

In the Matter of
the Securities Legislation of
British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Nova Scotia,
Newfoundland and Labrador and New Brunswick
(the “Jurisdictions”)

and

In the Matter of
the Mutual Reliance Review System for Exemptive Relief Applications

and

In the Matter of
Prism Medical Ltd. (the “Filer”)

MRRS Decision Document

Background

The local securities regulatory authority or regulator (the “Decision Maker”) in each of the Jurisdictions has received an application from the Filer for a decision under the securities legislation of the Jurisdictions (the “Legislation”) that, in connection with the proposed purchase by the Filer of a portion of its outstanding

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common shares (“Shares”) pursuant to an issuer bid (the “Offer”), the Filer be exempt from the requirements in the Legislation (the “Requested Relief”):

- (a) to take up and pay for securities proportionately according to the number of securities deposited by each securityholder; and
- (b) to provide disclosure in the issuer bid circular (the “Circular”) of such proportionate take-up and payment; and
- (c) to state the number of securities sought under the Offer (the “Number of Securities Requirement”).

Under the Mutual Reliance Review System for Exemptive Relief Applications:

- (a) the Ontario Securities Commission is the principal regulator for this application; and
- (b) this MRRS decision document evidences the decision of each Decision Maker.

Interpretation

Defined terms contained in National Instrument 14-101 *Definitions* have the same meaning in this decision unless they are defined in this decision.

“Shareholders” means, collectively, holders of Shares; and

“TSXV” means TSX Venture Exchange.

Representations

This decision is based on the following facts represented by the Filer:

1. The Filer is a reporting issuer in each of the Jurisdictions. It is not in default of any requirement of the Legislation and is not on the list of defaulting reporting issuers maintained pursuant to such Legislation, where applicable.
2. The Filer was incorporated under the *Business Corporations Act* (Ontario) by articles of incorporation dated February 15, 1996.
3. The authorized capital of the Filer consists of an unlimited number of Shares, of which approximately 6 million were issued and outstanding as at September 24, 2007.
4. The Shares are listed and posted for trading on the TSXV.

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5. To the best of the Filer's knowledge, the only Shareholders that hold more than 10% of the Shares are Mr. L. Lamont Gordon (as to approximately 14%) and Mr. Clive Ecroyd, an officer and director of the Filer (as to approximately 10%). In addition, Yellow Point Equity Partners Limited Partnership holds \$5,450,000 principal amount of the Filer's subordinated convertible debentures which are convertible into Shares representing approximately 18.4% of the Shares on a fully-diluted basis.
6. As at September 13, 2007, the last day on which Shares were traded on the TSXV before the Offer was announced, the closing price of the Shares on the TSXV was \$2.90 and on such date the outstanding Shares had an aggregate market value of approximately \$17,400,000, based on such closing price.
7. The Filer is conducting the Offer pursuant to a modified Dutch auction procedure (the "Dutch Auction"), as follows:
 - (a) the Circular specifies that the maximum amount that the Filer will spend pursuant to the Offer is \$4,000,000 (the "Specified Amount");
 - (b) the Circular specifies the range of prices within which the Filer is prepared to purchase such Shares (the "Price Range");
 - (c) each Shareholder wishing to tender to the Offer has the right either to:
 - (i) specify the lowest price within the Price Range at which such Shareholder is willing to sell its tendered Shares (an "Auction Tender"); or
 - (ii) not specify a price but elect to be deemed to have tendered the Shares purchased at the Purchase Price (determined according to subparagraph 7(e) below) (a "Purchase Price Tender");
 - (d) the aggregate dollar amount the Filer will spend pursuant to the Offer will remain variable until the Purchase Price is determined and the prorating is calculated in accordance with the procedures outlined on subparagraph 7(h) below;
 - (e) the price per Share (the "Purchase Price") for the Shares purchased pursuant to the Offer will be the lowest price that will enable the Filer to purchase the maximum number of Shares that may be purchased with the Specified Amount, and it will be determined based upon the number of Shares tendered and not withdrawn pursuant to an Auction Tender at each

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price within the Price Range and tendered and not withdrawn pursuant to a Purchase Price Tender, with each Purchase Price Tender being considered a tender at the lowest price within the Price Range for the purpose of calculating the Purchase Price;

- (f) all Shares tendered at prices above the Purchase Price will be returned to the appropriate Shareholders;
 - (g) all Shares tendered at or below the Purchase Price will be taken up and paid for at the Purchase Price, subject to pro ration as described under subparagraph (h) below;
 - (h) if the aggregate Purchase Price for Shares validly tendered to the Offer and not withdrawn exceeds the Specified Amount, the Filer will purchase the Shares tendered at or below the Purchase Price on a pro rata basis;
 - (i) if the Offer is under-subscribed by the initial expiration date but all the terms and conditions thereof have been complied with except those waived by the Filer, the Filer may extend the Offer for at least 10 days, in which case the Legislation would require the Filer to first take up and pay for all Shares deposited and not withdrawn. All Shares tendered at that time and not withdrawn will be taken up and paid for at the Purchase Price, which would also be the price applicable for the Offer during the extended bid period; and
 - (j) by the time any extended bid period is over, the Offer may be over-subscribed, in which case the Filer intends to pro-rate only among the tendered Shares received during the extension and after the original expiration date.
8. Prior to the initial expiry of the Offer, all information regarding the number of Shares tendered and the prices at which such Shares are tendered will be kept confidential by the depositary under the Offer, and the depositary will be directed by the Filer to maintain such confidentiality until the Purchase Price has been determined.
9. Since the Offer is for less than all the Shares, if the number of Shares tendered to the Offer exceeds the Specified Amount worth of Shares, the Legislation would require the Filer to take up and pay for deposited Shares proportionately, according to the number of Shares deposited by each Shareholder. In addition, the Legislation would require the Filer to disclose in the Circular that the Filer would, if Shares tendered to the Offer exceeded the Specified Amount worth of Shares, take up such Shares proportionately

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according to the number of Shares tendered by each Shareholder. The Filer cannot comply with the Number of Securities Requirement because it cannot specify the number of Shares it will acquire pursuant to the procedure described in paragraph 7 above.

10. The Circular:

- (a) discloses the mechanics for the take-up of and payment for, or the return of, Shares as described in paragraph 7 above;
- (b) explains that, by tendering Shares at the lowest price in the Price Range or under a Purchase Price Tender, a Shareholder can reasonably expect that the Shares so tendered will be purchased at the Purchase Price, subject to proration as described in paragraph 7 above; and
- (c) except to the extent exemptive relief is granted by the Decision Makers, contains the disclosure prescribed by the Legislation for issuer bids.

Decision

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.

The decision of the Decision Makers under the Legislation is that the Requested Relief is granted provided that Shares deposited under the Offer and not withdrawn are taken up and paid for, or returned to Shareholders, in the manner described in representation 7.

Harold P. Hands
Commissioner
Ontario Securities Commission

Suresh Thakrar
Commissioner
Ontario Securities Commission