

2005 BCSECCOM 752

December 1, 2005

Headnote

Mutual Reliance Review System for Exemptive Relief Applications - National Instrument 51-102 Continuous Disclosure Obligations - Securities Act, s. 119
Proxy solicitation requirements - Information circular - An issuer wants relief from the requirement to include prospectus-level disclosure in an information circular to be circulated in connection with an arrangement, reorganization, acquisition or amalgamation - Alternate financial information will be provided about the issuer that is consistent with the financial information required in the continuous disclosure context for significant acquisitions; information will be provided about the parties to the transaction sufficient for shareholders to assess the transaction as a whole

Applicable British Columbia Provisions

Securities Act, R.S.B.C. 1996, c. 418, ss. 117 and 119

National Instrument 51-102, ss. 9.1 and 13.1

Form 51-102F5, Item 14.2

In the Matter of
the Securities Legislation of
Alberta, British Columbia, Saskatchewan, Ontario and Quebec

and

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

and

In the Matter of
Tropic Networks Inc., Chamaelo Exploration Ltd.
and Tournament Energy Ltd.

MRRS Decision Document

Background

1. The local securities regulatory authority or regulator (the “Decision Maker”) in each of Alberta, British Columbia, Saskatchewan, Ontario and Québec (the “Jurisdictions”) has received an application from Tropic Networks Inc. (“Tropic”), Chamaelo Exploration Ltd. (“Chamaelo”) and Tournament Energy Ltd. (“Tournament”) (collectively, the “Filers”) for a decision under the securities legislation (the “Legislation”) of the

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Jurisdictions that Chamaelo be exempted, subject to certain conditions, from the requirements to provide audited statements of income, retained earnings and cash flow and a full pro forma income statement and a balance sheet in respect of certain acquisition made by Chamaelo during its current financial year (as referred to below), which would be considered to be a “significant acquisition” to Chamaelo, in the Information Circular (as defined below) as required by the Legislation (the “Disclosure Requirements”).

2. Under Mutual Reliance Review System for Exemptive Relief Applications (the “System”), the Alberta Securities Commission is the principal regulator of this application.
3. Under the System, this MRRS Decision Document evidences the decision of each Decision Maker (the “Decision”).

Interpretation

4. Unless otherwise defined, the terms herein have the meaning set out in National Instrument 14-101 *Definitions*.

Representations

5. This Decision is based on the following facts represented by the Filers:
 - 5.1 Tropic is a private technology company incorporated under the *Canada Business Corporations Act* (the “CBCA”) on May 2, 2000.
 - 5.2 The authorized capital of Tropic consists of an unlimited number of common shares, an unlimited number of class A preferred shares, an unlimited number of class B preferred shares, up to 40,416,615 class C preferred shares, up to 80,439,062 class D preferred shares and up to 92,516,618 class D-1 preferred shares.
 - 5.3 Tropic is not a reporting issuer or the equivalent in any jurisdiction in Canada and its securities are not listed or posted for trading on any stock exchange.
 - 5.4 Chamaelo is an oil and gas company incorporated under the *Business Corporations Act* (Alberta) (the “ABCA”) on April 25, 2005 as 1166554 Alberta Inc. for the purpose of participating in a plan of arrangement (the “CEI Arrangement”) under the ABCA involving Chamaelo Energy Inc. (“CEI”), Chamaelo, Vault Energy Trust, Vault Acquisition Inc., Chamaelo Finance Ltd., securityholders of CEI and shareholders of Chamaelo Finance Ltd.

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Pursuant to a Certificate of Amendment dated May 19, 2005, the rights attached to the voting common shares (“Chamaelo Voting Common Shares”) of Chamaelo were amended, its class of preferred shares was removed, and a new class of non-voting common shares (“Chamaelo Non-Voting Common Shares”) was created. Pursuant to a Certificate of Amendment dated June 22, 2005, it changed its name to Chamaelo Exploration Ltd.

- 5.5 The authorized capital of Chamaelo consists of an unlimited number of Chamaelo Voting Common Shares and an unlimited number of Chamaelo Non-Voting Common Shares.
- 5.6 Chamaelo is a reporting issuer in British Columbia, Alberta, Saskatchewan, Ontario, Québec and New Brunswick. The Chamaelo Voting Common Shares are listed on the Toronto Stock Exchange under the trading symbol “CXN”.
- 5.7 Tournament is a private oil and gas company incorporated under the ABCA on June 17, 2002.
- 5.8 The authorized capital of Tournament consists of an unlimited number of common shares (“Tournament Shares”) and one preferred share.
- 5.9 Tournament is not a reporting issuer or the equivalent in any jurisdiction in Canada and its securities are not listed or posted for trading on any stock exchange.
- 5.10 On October 25, 2005, Chamaelo announced that it had entered into an arrangement agreement whereby Tropic will acquire all the issued and outstanding securities of Chamaelo and Tournament pursuant to a plan of arrangement (the “Arrangement”) under Section 192 of the CBCA and Section 193 of the ABCA.
- 5.11 At the date on which the Arrangement becomes effective under the CBCA and the ABCA, the Arrangement will result in:
 - 5.11.1 holders of common shares of Tropic and holders of preferred shares of Tropic having their securities changed into voting common shares of Tropic (“Tropic Voting Common Shares”);

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- 5.11.2 holders of Chamaelo Voting Common Shares exchanging each of their Chamaelo Voting Common Shares for one Tropic Voting Common Share;
 - 5.11.3 holders of Chamaelo Non-Voting Common Shares exchanging each of their Chamaelo Non-Voting Common Shares for one non-voting common share (“Tropic Non-Voting Common Share”) of Tropic; and
 - 5.11.4 holders of Tournament Shares receiving, in accordance with the election or deemed election of such shareholders, a cash payment estimated to be approximately \$6.05 per Tournament Share or a fraction of a Tropic Voting Common Share determined in accordance with the plan of arrangement.
- 5.12 As part of the Arrangement, the combined entity will own all of Chamaelo's oil and natural gas assets and undeveloped lands and a majority of Tournament's oil and natural gas assets and undeveloped lands.
- 5.13 The joint information circular (the “Information Circular”) of the Filers with respect to the annual general and special meeting of the securityholders of Tropic and the special meetings of the respective securityholders of Chamaelo and Tournament, all to be held on or about January 3, 2006 for the purpose of approving the Arrangement, will contain (or to the extent permitted, will incorporate by reference) prospectus-level disclosure in respect of the Filers and a detailed description of the Arrangement.
- 5.14 Pursuant to item 14.2 of Form 51-102F5 Information Circular of National Instrument 51-102 *Continuous Disclosure Obligations* (“NI 51-102”), the Filers are required to provide, among other things, financial statement disclosure in the Information Circular for each entity, securities of which are being changed, exchanged, issued or distributed, and for each entity that would result from the significant acquisition or restructuring transaction, prescribed by the form of prospectus that the entity would be eligible to use for a distribution of securities in the Jurisdictions which, in this case, disclosure for the Filers is prescribed by Ontario Securities Commission Rule 41-501 *General Prospectus Requirements* (“OSC Rule 41-501”).

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- 5.15 On June 20, 2005, securityholders of CEI approved the CEI Arrangement. In conjunction with the CEI Arrangement, CEI and Chamaelo entered into a petroleum, natural gas and general rights conveyance agreement, pursuant to which Chamaelo acquired certain of CEI's oil and gas properties (the "CEI Assets") for an aggregate consideration of approximately \$52,000,000.
- 5.16 The information circular of CEI dated May 20, 2005 (the "CEI Circular") with respect to the CEI Arrangement contained, among other things, the statements of revenue and operating expenses of the CEI Assets for the financial years ended December 31, 2004, 2003 and 2002 which were audited by KPMG LLP.
- 5.17 The Information Circular will contain (or to the extent permitted, will incorporate by reference) detailed information concerning the CEI Assets and their acquisition by Chamaelo.
- 5.18 The acquisition of the CEI Assets was a "significant acquisition" for Chamaelo under OSC Rule 41-501. The acquisition was in excess of 50% on the asset test and in excess of 50% on the income test for Chamaelo.
- 5.19 Under the applicable prospectus requirements, Chamaelo would be required to include three years of audited financial statements for the CEI Assets, as well as certain unaudited financial statements and pro formas, in the Information Circular with respect to the significant acquisition thereof by Chamaelo. Nonetheless, in light of Part 3, item 3.3(1) of the Companion Policy to OSC Rule 41-501 ("41-501CP"), Chamaelo proposes that the financial disclosure in the Information Circular in respect of the acquisition of the CEI Assets by Chamaelo be presented in accordance with the "Alternative Disclosure" as defined and described in Part 3, item 3.3(2) of 41-501CP.
- 5.20 The Filer proposes to include, with respect to the acquisition of the CEI Assets by Chamaelo:
- 5.20.1 audited statements of revenue and operating expenses in respect of the CEI Assets for the years ended December 31, 2004, 2003 and 2002 (which were previously disclosed in the CEI Circular);

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- 5.20.2 a pro forma income statement for Chamaelo for the year ended December 31, 2004 combining the CEI Assets (which was previously disclosed in the CEI Circular);
- 5.20.3 pro forma earnings per share based upon the statement referred to in 5.20.2 directly above (which were previously disclosed in the CEI Circular); and
- 5.20.4 information with respect to reserve estimates of future net revenue and production volumes and other relevant material information relating to the CEI Assets (which was previously disclosed in the CEI Circular)

(the "Alternative Financial Disclosure").

- 5.21 The acquisition referred to herein is an acquisition of interests in oil and gas properties constituting a business, as provided in 41-501CP.
- 5.22 The acquisition referred to herein has no separate historical audited financial statements exist in respect of the assets in question.
- 5.23 The acquired assets referred to herein does not constitute a reportable segment for the relevant entity.
- 5.24 The Filers are not in default of any of the requirements under the Legislation.

Decision

- 6. 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 the requirement contained in the Legislation to include financial statement disclosure in an information circular prepared in connection with a plan of arrangement, specifically, audited and unaudited statements of income, retained earnings and cash flow and a full pro forma income statement and a balance sheet in respect to the CEI Assets for a three-year period as required by the Disclosure Requirements, shall not apply to Chamaelo provided that the Alternative Financial Disclosure for Chamaelo is included in the Information Circular.

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DATED at Calgary, Alberta on this 1st day of December, 2005.

Agnes Lau, CA
Associate Director, Corporate Finance